

FISCAL YEAR ENDING SEPTEMBER 30, 2016

COMPREHENSIVE ANNUAL
FINANCIAL REPORT



THE CITY OF HARKER HEIGHTS, TEXAS

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

OF THE

CITY OF HARKER HEIGHTS

For the Fiscal Year Ended September 30, 2016

Prepared by the
Finance Department
Alberta S. Barrett, Finance Director

City of Harker Heights
305 Miller's Crossing
Harker Heights, TX 76548



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FOR THE YEAR ENDED SEPTEMBER 30, 2016

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**INTRODUCTORY
SECTION**



The City Of Harker Heights
305 Miller's Crossing
Harker Heights, Texas 76548
Phone 254/953-5600
Fax 254/953-5614

Mayor
Rob Robinson

Mayor Protem
Jody Nicholas

City Council
Hal Schiffman
Steve Carpenter
Spencer H. Smith
John Reider

February 6, 2017

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Harker Heights:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Harker Heights for the fiscal year ended September 30, 2016.

This report consists of management's representations concerning the finances of the City of Harker Heights. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Harker Heights's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Harker Heights' financial statements have been audited by Lott, Vernon & Company, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2016, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2016, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Harker Heights' MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Harker Heights, incorporated in 1960, is located in Bell County on US Highway 190, approximately twelve miles West of Interstate 35, between Belton and Killeen. The City

currently occupies a land area of 15.4 square miles and serves a population of approximately 31,117. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City of Harker Heights is a home rule City which operates under a Council-Manager form of government. All powers of the City are vested in the elective Council which consists of a Mayor and five council members; one of which is elected to serve as Mayor Pro-tem. The City Council enacts local legislation, adopts budgets, determines policies and employs the City Manager. The City Manager is responsible for executing the laws and administering the government of the City.

The City of Harker Heights provides a full range of services, including police, fire and EMS protection; the construction and maintenance of streets and other infrastructures; and recreational activities and cultural events. Sanitation services are contracted out to a private company. Water, sewer, and drainage utility are provided through a legally separate Utility and Drainage Utility fund, which functions, in essence, as a department of the City and therefore has been included as an integral part of the City of Harker Heights' financial statements.

The annual budget serves as the foundation for the City of Harker Heights' financial planning and control. All agencies of the City are required to submit requests for appropriation to the City Manager. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the City Council for review. The council is required to hold a public hearing on the proposed budget and to adopt a final budget no later than September 27; the close of the City's fiscal year is September 30. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within a department. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 23 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 76.

Local Economy

In 2016, the average unemployment rate for Harker Heights was 4.3%, a decrease from a rate of 4.7% in 2015. This is lower than the average rate for Bell County of 4.5% and the state average of 4.6%.

A basic growth indicator of a community is the value of building permits. The following chart shows the value of building permits issued by category for each of the past two years:

| | Fiscal Year 2016 | Fiscal Year 2015 | Difference |
|------------------------|---------------------|---------------------|-----------------------|
| Fence | \$615,426 | \$704,936 | (\$89,510) |
| Home Improvement/Other | 9,584,597 | 12,535,418 | (2,950,821) |
| New Commercial | 2,688,179 | 20,715,000 | (18,026,821) |
| New Residence | 48,339,649 | 45,064,177 | 3,275,472 |
| Plumbing | 108,734 | 50,332 | 58,402 |
| Total: | \$61,336,585 | \$79,069,863 | (\$17,733,278) |

With the completion of the YMCA Building, CVS Pharmacy, A Plus Credit Union, Taco Bell and Popeye's last fiscal year, building permits in the new commercial category are down \$18 million. New residential permits are up as new homes in The Evergreens and Tuscany Meadows subdivisions continue to be built. Duplexes are also becoming a practical option and fall into the new residence category.

Long-Term Financial Planning

In 2016, the City issued the Series 2016 General Obligation Refunding Bonds as an advance refund for the Series 2006 and Series 2009 Combination Tax and Utility System Revenue Certificates of Obligation.

Capital improvements are budgeted at over \$2.3 million which include various wastewater, drainage, sidewalk projects, and street projects, as well as building renovations, and park improvements.

Relevant Financial Policies

In FY 2005-06, the City Council approved raising the General Fund reserve requirement to three months of operating expenses to be accomplished over a five year period. This goal was achieved during the 2009-10 fiscal year. At the end of FY 2015-16, the general fund had just under a six month fund balance or 49% of operating expenditures. The Utility Fund also had just under a six month fund balance or 48% of its operating expenditures.

Major Initiatives

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Harker Heights operates.

- Foster the image of Harker Heights as a clean, safe, well-maintained and progressive City.
- Stimulate creation and growth of locally owned businesses.
- Enhance and extend infrastructure in anticipation of further planned growth.
- Expand street maintenance and sewer rehabilitation projects throughout the City.
- Maintain a long-range Capital Improvement Plan.
- Maintain multi-year equipment replacement program.
- Determine and implement methods to better communicate with citizens.

Awards and Acknowledgements

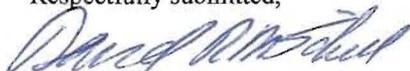
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Harker Heights for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2015. This was the twenty first consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

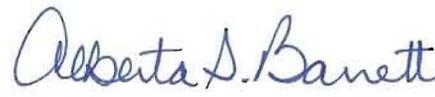
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated October 1, 2015. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and administration department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Harker Heights' finances.

Respectfully submitted,


David R. Mitchell
City Manager


Alberta S. Barrett
Finance Director



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Harker Heights
Texas**

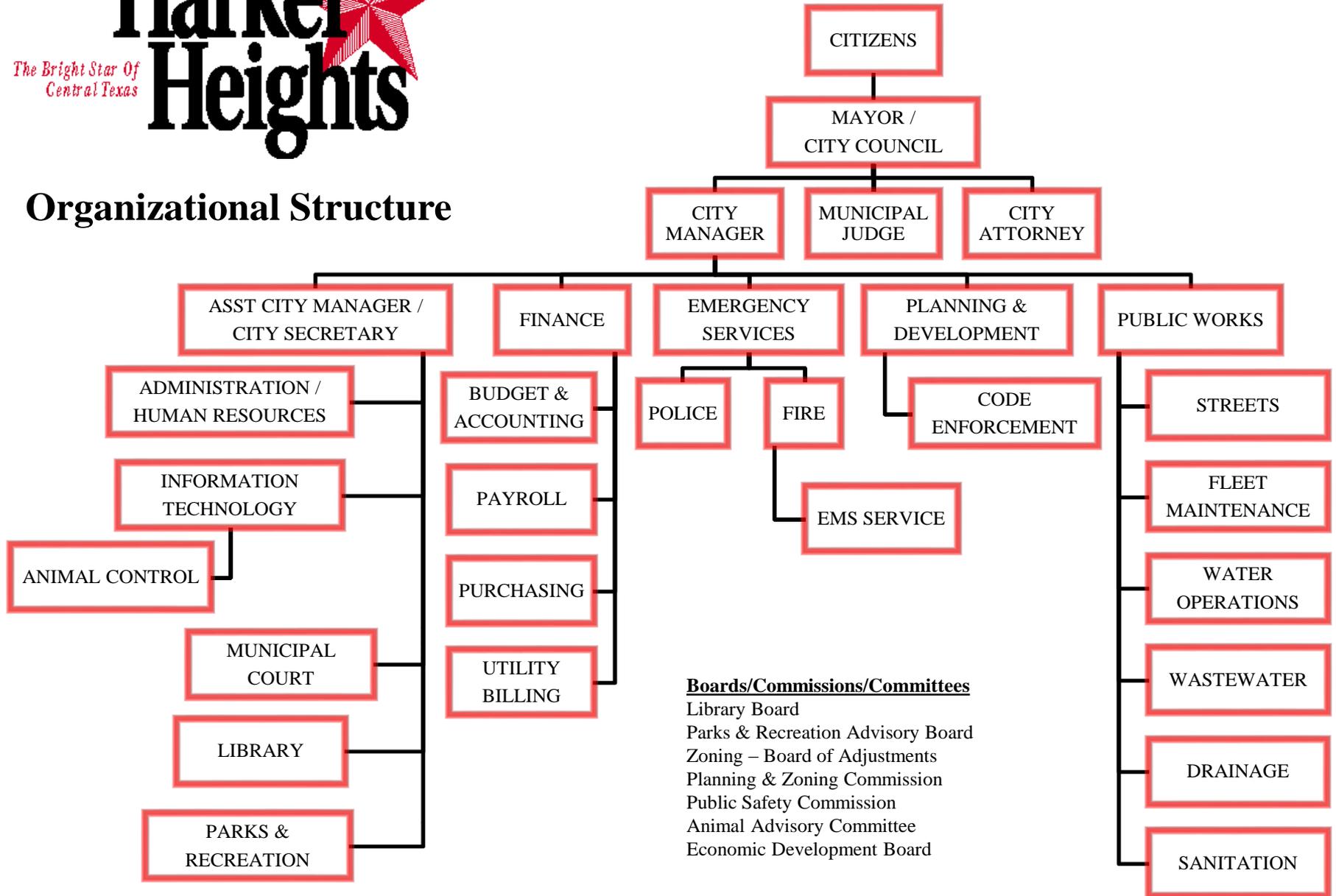
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2015

Executive Director/CEO



Organizational Structure



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**CITY OF HARKER HEIGHTS
LIST OF PRINCIPAL OFFICIALS**

CITY COUNCIL

Rob RobinsonMayor
Jody Nicholas.....Mayor Protempore
Hal Schiffman Council Member
Steve Carpenter..... Council Member
Spencer H. Smith Council Member
John Reider Council Member

APPOINTED OFFICIALS

David R. Mitchell City Manager
Burk Roberts City Attorney
Tony Kosta..... City Judge
Patricia Brunson..... Assistant City Manager/City Secretary
Alberta S. Barrett Finance Director
Michael Gentry Police Chief
Paul Sims Fire Chief
Jerry Bark.....Parks & Recreation Director
Lisa Youngblood..... Library Director
Mark Hyde Public Works Director
Joseph Molis Development & Planning Director



**FINANCIAL
SECTION**



LOTT, VERNON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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KILLEEN • COPPERAS COVE • TEMPLE

*Member of
American Institute & Texas Society of
Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Harker Heights, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Harker Heights, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harker Heights, Texas, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension and other post-employment benefits schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harker Heights, Texas's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, on our consideration of the City of Harker Heights, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Harker Heights, Texas' internal control over financial reporting and compliance.



Killeen, Texas
January 31, 2017

City of Harker Heights, Texas
Management's Discussion and Analysis
September 30, 2016

As management of the City of Harker Heights, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Harker Heights for the fiscal year ended September 30, 2016. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars and include a comparative analysis of government-wide data.

Financial Highlights

- The assets and deferred outflows of the City of Harker Heights exceeded its liabilities and deferred inflows at the close of the fiscal year ending September 30, 2016 by \$67.4 million (*net position*). Of this amount, \$2.2 million is restricted for capital projects and \$2.9 million is assigned to capital projects from non-bond revenues.
- The City's total net position increased by over \$4 million for the year ended September 30, 2016. The majority of the increase in net position can be attributed to an increase in deferred outflows related to pensions and an increase in capital assets.
- As of the September 30, 2016, the City of Harker Heights' governmental funds reported combined ending fund balances of \$14.6 million, a decrease of \$8.3 million in comparison with the prior year. The majority of the decrease is due to capital outlay expenditures. Of the governmental funds reported combined fund balances, \$9.7 million or 66.2 percent is available for spending within the City's guidelines (*unassigned fund balance*).
- At fiscal year end, the general fund unassigned fund balance was \$9.7 million, or 47.0 percent of total general fund expenditures.
- Residential growth overall has seen a decrease. Single family permits decreased by 10 permits but had an increased value of \$801. Two family residential permits decreased by 11 and had a decrease in value of \$2.0 million. New commercial permits decreased by 2 permits and decreased in values by \$18.0 million.
- Wastewater lines were installed to the east of the City in the amount of \$3.4 million during the year. Also, the City completed a small water main oversizing project.
- During this fiscal year, the City completed improvements along FM 3481 and Knights Way in the amount of \$1.6 million. Various other small improvements were completed totaling over \$1.1 million.
- Various park improvement projects were completed during the year as well as an outdoor run at the Pet Adoption Center.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Harker Heights' basic financial statements. The City of Harker Heights' basic financial statements are comprised of three components:

- 1) government-wide financial statements,
- 2) fund financial statements, and
- 3) notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Harker Heights' finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City of Harker Heights' assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Harker Heights is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2016**

some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Harker Heights that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Harker Heights include general government, public safety, highways and streets, economic development, and culture and recreation. The business-type activities of the City of Harker Heights include a Water and Sewer Fund, Drainage Utility Fund and Sanitation Fund.

The government-wide financial statements can be found on pages 14-16 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Harker Heights, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Harker Heights can be divided into two categories: governmental funds and proprietary funds.

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds – governmental and proprietary – utilize different accounting approaches.

Governmental funds. The majority of the City's basic services are reported in governmental funds, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Debt Service Fund and the Capital Projects Fund, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated nonmajor fund presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Harker Heights adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17-24 of this report.

Proprietary funds. The City of Harker Heights maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements.

The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2016**

The City of Harker Heights maintains three individual enterprise funds. The City uses enterprise funds to account for its water and sewer, drainage utility, and sanitation. These funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer, sanitation, and drainage utility.

The basic proprietary fund financial statements can be found on page 25-29 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-67 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Harker Heights' progress in funding its obligation to provide pension benefits to its employees and to provide other postemployment benefits for its employees. Required supplementary information can be found on page 68-71 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions and other postemployment benefits. Combining and individual fund statements and schedules can be found on pages 72-112 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Harker Heights, assets and deferred outflows exceeded liabilities and deferred inflows by \$67.4 million at the close of the most recent fiscal year.

A portion of the City of Harker Heights' net position (3.7 percent) represents resources that are subject to external restrictions on how they may be used.

**Table 1
Condensed Statement of Net Position
(in thousands)**

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|-------------------------|-----------------|--------------------------|-----------------|--------------------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Current and other assets | \$18,333 | \$26,217 | \$3,452 | \$3,405 | \$21,785 | \$29,622 |
| Capital assets | 56,592 | 49,215 | 48,632 | 46,173 | 105,224 | 95,388 |
| Total assets | <u>74,925</u> | <u>75,432</u> | <u>52,084</u> | <u>49,578</u> | <u>127,009</u> | <u>125,010</u> |
| Deferred outflows of resources | 3,626 | 2,000 | 746 | 423 | 4,372 | 2,423 |
| Other liabilities | 6,231 | 5,919 | 1,763 | 1,709 | 7,994 | 7,628 |
| Long-term liabilities outstanding | 26,389 | 27,984 | 19,190 | 20,315 | 45,579 | 48,299 |
| Net pension liability | 9,531 | 7,611 | 721 | 580 | 10,252 | 8,191 |
| Total liabilities | <u>42,151</u> | <u>41,514</u> | <u>21,674</u> | <u>22,604</u> | <u>63,825</u> | <u>64,118</u> |
| Deferred inflows resources | 170 | 35 | 13 | 3 | 183 | 38 |
| Net position: | | | | | | |
| Invested in capital assets, net of related debt | 30,534 | 26,705 | 28,727 | 27,658 | 59,261 | 54,363 |
| Restricted | 1,828 | 8,942 | 710 | 57 | 2,538 | 8,999 |
| Assigned | 3,099 | 3,952 | | | 3,099 | 3,952 |
| Unrestricted | 769 | (3,716) | 1,706 | (321) | 2,475 | (4,037) |
| Total net position | <u>\$36,230</u> | <u>\$35,883</u> | <u>\$31,143</u> | <u>\$27,394</u> | <u>\$67,373</u> | <u>\$63,277</u> |

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2016**

An additional portion of the City of Harker Heights' net position (88 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Harker Heights uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Harker Heights' investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Total net position for the City of Harker Heights reflects a \$4.1 million increase. Key elements of this increase are as follows:

**Table 2
Changes in Net Position
(in thousands)**

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|-------------------------------------|-------------------------|-----------------|--------------------------|-----------------|--------------------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$2,371 | \$2,372 | \$12,091 | \$11,435 | \$14,462 | \$13,807 |
| Operating grants and contributions | 1,083 | 792 | | | 1,083 | 792 |
| Capital grants and contributions | | | | | | |
| General revenues: | | | | | | |
| Property taxes | 10,833 | 10,419 | | | 10,833 | 10,419 |
| Sales taxes | 6,627 | 6,594 | | | 6,627 | 6,594 |
| Other taxes | 239 | 280 | | | 239 | 280 |
| Franchise fees | 1,297 | 1,342 | 161 | 125 | 1,458 | 1,467 |
| Investment earnings | 115 | 48 | 18 | 10 | 133 | 58 |
| Total revenues | <u>22,565</u> | <u>21,847</u> | <u>12,270</u> | <u>11,570</u> | <u>34,835</u> | <u>33,417</u> |
| Expenses: | | | | | | |
| General government | 3,866 | 3,967 | | | 3,866 | 3,967 |
| Public safety | 12,715 | 10,478 | | | 12,715 | 10,478 |
| Highways/streets | 880 | 1,768 | | | 880 | 1,768 |
| Culture and recreation | 3,378 | 3,051 | | | 3,378 | 3,051 |
| Economic development | 410 | 447 | | | 410 | 447 |
| Interest on long-term debt | 1,032 | 988 | | | 1,032 | 988 |
| Water and sewer | | | 6,356 | 6,662 | 6,356 | 6,662 |
| Sanitation | | | 1,743 | 1,649 | 1,743 | 1,649 |
| Drainage | | | 359 | 364 | 359 | 364 |
| Total expenses | <u>22,281</u> | <u>20,699</u> | <u>8,458</u> | <u>8,675</u> | <u>30,739</u> | <u>29,374</u> |
| Increase (decrease) in net position | | | | | | |
| before transfers | 284 | 1,148 | 3,812 | 2,895 | 4,096 | 4,043 |
| Transfers | 63 | 1,480 | (63) | (1,480) | | |
| Increase (decrease) in net position | <u>347</u> | <u>2,628</u> | <u>3,749</u> | <u>1,415</u> | <u>4,096</u> | <u>4,043</u> |
| Net position (beginning of year) | <u>35,883</u> | <u>33,255</u> | <u>27,394</u> | <u>25,979</u> | <u>63,277</u> | <u>59,234</u> |
| Net position (end of year) | <u>\$36,230</u> | <u>\$35,883</u> | <u>\$31,143</u> | <u>\$27,394</u> | <u>\$67,373</u> | <u>\$63,277</u> |

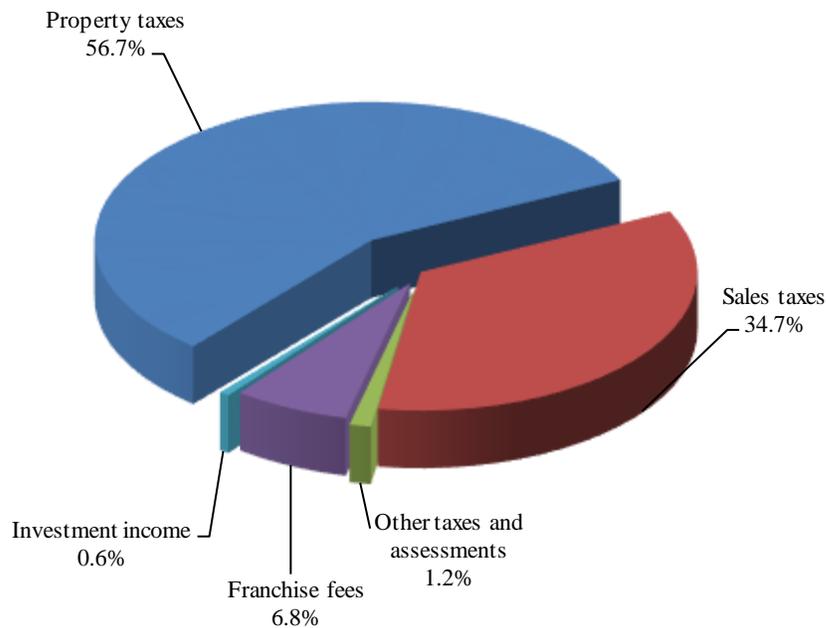
**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2016**

Governmental activities. The City's general revenues increased when compared to the prior year by 2.2 percent or \$428. The major increase was due to a \$414 increase in property tax revenues. Investment income increased by \$67 due to higher interest rates. Sales tax revenues had a slight increase of \$33.

**Table 3
General Revenues Comparison
(in thousands)**

| | Fiscal Year 2016 | Fiscal Year 2015 | Increase (Decrease) |
|--------------------------------------|---------------------|---------------------|------------------------|
| Governmental activities | | | |
| Property taxes | \$10,833 | \$10,419 | \$414 |
| Sales taxes | 6,627 | 6,594 | 33 |
| Other taxes and assessments | 239 | 280 | (41) |
| Franchise fees | 1,297 | 1,342 | (45) |
| Investment income | 115 | 48 | 67 |
| Total governmental activities | \$19,111 | \$18,683 | \$428 |

**General Revenues for the Year Ended
September 30, 2016**



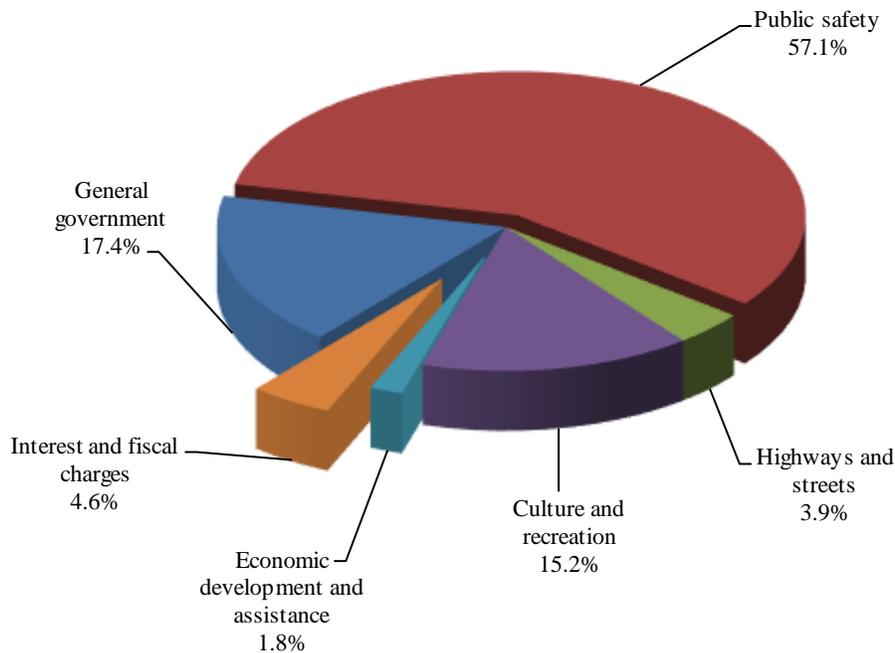
**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2016**

The most significant governmental expense for the City was in providing for public safety, which incurred expenses of \$12.7 million. These expenses were offset by revenues collected from a variety of sources, with the largest consisting of court fines of \$0.74 million, property taxes which are \$10.8 million, sales tax revenues of \$6.6 million and franchise fees of \$1.3 million for the fiscal year ending September 30, 2016. The major components of public safety are Police, Fire and Emergency Medical Services (EMS). Police accounted for \$6.6 million in public safety expense of which \$4.7 million was incurred for salary and benefits. Fire and EMS accounted for \$4.3 million in public safety expense, of which \$3.5 million was incurred for salary and benefits.

**Table 4
Governmental Expenses by Activity
(in thousands)**

| | Fiscal Year 2016 | Fiscal Year 2015 | Increase (Decrease) |
|-------------------------------------|---------------------|---------------------|------------------------|
| Governmental activities | | | |
| General government | \$3,866 | \$3,967 | (\$101) |
| Public safety | 12,715 | 10,478 | 2,237 |
| Highways and streets | 880 | 1,768 | (888) |
| Culture and recreation | 3,378 | 3,051 | 327 |
| Economic development and assistance | 410 | 447 | (37) |
| Interest and fiscal charges | 1,032 | 988 | 44 |
| Total governmental activities | \$22,281 | \$20,699 | \$1,582 |

**Governmental Expenses for the Year Ended
September 30, 2016**



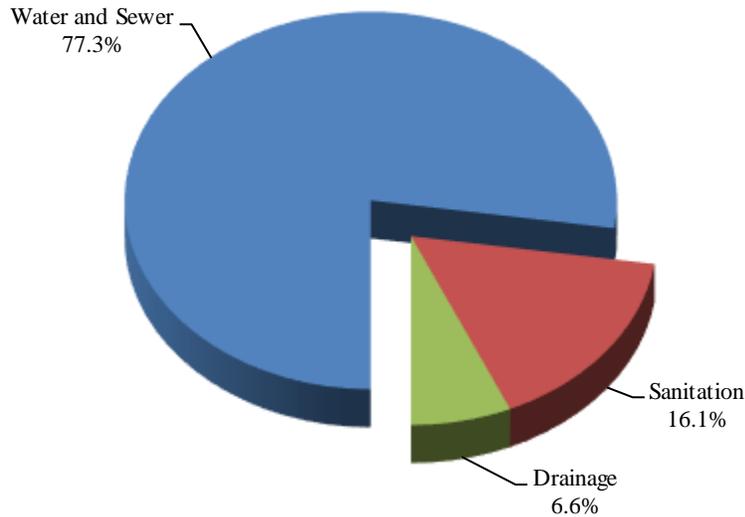
**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2016**

Business-type activities. Business-type activities increased the City of Harker Heights' net position by \$3.7 million. Revenues of the City's business-type activities were \$12.1 million for the fiscal year ending September 30, 2016.

**Table 5
Business Type Revenue Comparison
(in thousands)**

| | Fiscal Year 2016 | Fiscal Year 2015 | Increase (Decrease) |
|-----------------|---------------------|---------------------|------------------------|
| Water and Sewer | \$9,353 | \$8,776 | \$577 |
| Sanitation | 1,941 | 1,888 | 53 |
| Drainage | 797 | 771 | 26 |
| | <u>\$12,091</u> | <u>\$11,435</u> | <u>\$656</u> |

**Business Type Revenues for the Year Ended
September 30, 2016**



Water and Sewer rates were increased by three percent for FY 2015-16 and the City saw growth but that was offset with heavy rainfall during the year. Sanitation revenues remained constant. Drainage income saw a slight increase of \$26.

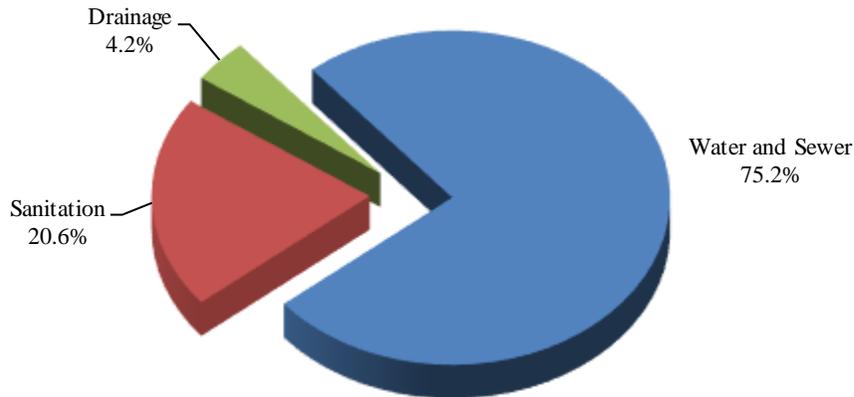
Expenses for the City's business-type activities were \$8.5 million for the year, resulting in net revenues of \$3.6 million and a change in net position of \$3.7 million. The changes in net position are the result of several factors, including the following:

- The City recorded charges for services of \$9.4 million from the water and sewer system. The most significant expenses were \$2.1 million to purchase water and \$1.3 million in salaries and benefits.
- Sanitation services are contracted out. Total revenue equaled \$2.1 million with the majority of the revenue from collections for sanitation services of \$1.9 million; the major expense for sanitation is \$1.4 million in contractual services for a total operating expenses of \$1.7 million.
- Drainage revenues totaled \$797 in charges for services. The major operating expenses include salaries and benefits of \$130 for a total operating expenses of \$303.

Table 6
Business Type Expenses by Activity
 (in thousands)

| | Fiscal Year 2016 | Fiscal Year 2015 | Increase (Decrease) |
|-----------------|---------------------|---------------------|------------------------|
| Water and Sewer | \$6,356 | \$6,662 | (\$306) |
| Sanitation | 1,743 | 1,649 | 94 |
| Drainage | 359 | 364 | (5) |
| | <u>\$8,458</u> | <u>\$8,675</u> | <u>(\$217)</u> |

**Business Type Expenses for the Year Ended
 September 30, 2016**



Financial Analysis of the Government's Funds

As noted earlier, the City of Harker Heights uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Harker Heights' *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Harker Heights' governmental funds reported combined ending fund balances of \$14.6 million, a decrease of \$8.3 million in comparison with the prior year. Approximately 66 percent or \$9.7 million constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *restricted* to indicate that it is not available for new spending because it has already been restricted for 1) debt service (\$55), 2) capital assets (\$1.5 million) related to the bond issue, 3) federal or state grant restrictions (\$259), 4) cemetery (\$18), and assigned to 5) capital assets (\$2.9 million), and 6) other (\$242).

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2016**

The general fund is the chief operating fund of the City of Harker Heights. At the end of the current fiscal year, unassigned fund balance of the general fund was \$9.7 million, while total fund balance reached \$9.9 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 47 percent of total general fund expenditures, while total fund balance represents 48 percent of that same amount. The fund balance of the City of Harker Heights' general fund has decreased by \$278 during the current fiscal year. Key factors for this decrease are higher public safety expenditures and capital lease payments.

The debt service fund has a total fund balance of \$55, all of which is restricted for the payment of debt service.

The capital projects fund balance is \$4.4 million of which \$1.5 million is restricted for capital improvement projects financed by bonded debt and \$2.9 is assigned for capital improvement projects that are funded from non-bond revenue. This fund had a \$7.9 million decrease in fund balance from the previous year. During this past fiscal year, the City completed street projects of \$2.7 million, park projects of \$84, building projects of \$68, and \$3.5 million in water and sewer projects.

Proprietary funds. The City of Harker Heights' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As of the end of the current fiscal year, the City of Harker Heights' proprietary funds reported combined net position of \$31.1 million, an increase of \$3.7 million or 14 percent over the prior year. Unrestricted net position totals \$1.7 million. Restricted net position totals \$710. A total of \$28.7 million of net position is net investment in capital assets.

At the end of the current fiscal year, unrestricted net position for the water and sewer fund was \$1.6 million, restricted net position was \$710 while total net position was \$27.1 million. Total net position for the water and sewer fund has increased by \$3.8 million during the current fiscal year.

The sanitation fund has total net position of \$90, a decrease of \$65 from the prior year. The majority of this decrease is due to an increase in due to other funds.

Drainage fund reflects a liability of \$1.7 million for capital improvements and total net position in the drainage utility system of \$4.0 million.

General Fund Budgetary Highlights

Actual expenditures in the General Fund were \$20.8 million compared to the budget amount of \$20.6 million. The \$162 overage is mainly due to increased public safety expenditures.

For FY 2015-16, actual revenues were \$19.5 million as compared to the budget amount of \$19.2 million. The majority of the \$248 positive variance was due to an increase of \$811 in contributions and donations, a decrease of \$463 in franchise fees, sales tax and other taxes, and a \$398 decrease in court fines revenue.

The City of Harker Heights has an actual General Fund balance of \$9.9 million as of the fiscal year end, compared to the budgeted fund balance of \$7.6 million. The variance in fund balance is primarily due to the items stated above along with transfers in/out.

Capital Asset and Debt Administration

Capital assets. The City of Harker Heights' investment in capital assets for its governmental and business-type activities as of September 30, 2016, amounts to \$105.2 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and lift stations, machinery and equipment, park facilities, vehicles, furniture and fixtures, streets, and infrastructure. The total increases in the City's investment in capital assets for the current fiscal year was 10.0 percent (8.0 percent increase for governmental activities and a 2.0 percent increase for business-type activities) and is attributed to the following:

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2016**

- Capital assets increased in several categories, however, the major increases were in construction in progress with an increase of \$4.7 million and infrastructure increasing \$2.2 million.
- Infrastructure in business-type activities increased by \$2.5 million bringing the previous year total of \$40.2 million to \$42.7 million. As stated above, the construction in progress in business-type activities decreased by \$203 from the previous year.

**Table 7
Capital Assets
(in thousands)**

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|-----------------------------------|-------------------------|-----------------|--------------------------|-----------------|--------------------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Land | \$15,576 | \$15,576 | \$285 | \$285 | \$15,861 | \$15,861 |
| Buildings and lift stations | 6,720 | 7,256 | 1,582 | 1,645 | 8,302 | 8,901 |
| Improvements other than buildings | 107 | 77 | 4 | 6 | 111 | 83 |
| Furniture and fixtures | 99 | 136 | | | 99 | 136 |
| Machinery and equipment | 1,353 | 1,195 | 625 | 387 | 1,978 | 1,582 |
| Vehicles | 2,202 | 1,283 | 110 | 127 | 2,312 | 1,410 |
| Infrastructure | 22,049 | 19,884 | 42,678 | 40,172 | 64,727 | 60,056 |
| Construction in progress | 8,486 | 3,808 | 3,348 | 3,551 | 11,834 | 7,359 |
| Total | \$56,592 | \$49,215 | \$48,632 | \$46,173 | \$105,224 | \$95,388 |

Additional information on the City of Harker Heights' capital assets can be found in note IV.3 on pages 43-44 of this report.

Debt. In February 2012, the City was assigned a long-term rating of "AA" by Standard & Poor's Rating Service. This rating was raised from the "AA-" rating received in 2009. In 2016, Standard & Poor's considers the City's economy to be adequate with strong city management. The rating reflects that the City's budgetary flexibility remains very strong and the budgetary performance has been strong overall. In their opinion, the City has very strong liquidity providing very strong cash levels to cover debt service and expenditures as well as good management with good financial policies. The City maintains an "A2" rating from Moody's Investors Service for tax supported debt. The City also has several outstanding issues which are rated "Aaa" by Moody's and "AAA" by Standard and Poor's by virtue of insurance policies issued by various commercial insurance companies.

**Table 8
Outstanding Debt
(in thousands)**

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|-------------------------|-----------------|--------------------------|-----------------|--------------------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| General obligation bonds | \$10,605 | \$9,110 | \$10,200 | \$5,970 | \$20,805 | \$15,080 |
| Certificates of obligation | 16,368 | 19,476 | 10,227 | 15,543 | 26,595 | 35,019 |
| Capital leases payable | 552 | 571 | | | 552 | 571 |
| Note payable | | 69 | | | 0 | 69 |
| Compensated absences | 700 | 708 | 44 | 40 | 744 | 748 |
| Net pension liability | 9,531 | 7,612 | 721 | 579 | 10,252 | 8,191 |
| Net other postemployment benefit obligation | 623 | 483 | 70 | 53 | 693 | 536 |
| Total | \$38,379 | \$38,029 | \$21,262 | \$22,185 | \$59,641 | \$60,214 |

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2016**

The constitutional debt limit is 7 percent of the five year average full valuation of taxable real property. The current debt limitation for the City of Harker Heights is \$117.0 million which is \$90.9 million more than the City's outstanding indebtedness of \$26.1 million.

Additional information on the City of Harker Heights' long-term debt can be found in note IV.6 on pages 46-57 of this report.

Economic Factors and Next Year's Budgets and Rates

The annual unemployment rate for Harker Heights in 2015 was 4.7% which is a decrease of 0.9% from a rate of 5.6% in 2014. This is the same as Bell County's annual unemployment rate, higher than the state average rate of 4.5% and lower than the national average rate of 5.3%.

All of these factors were considered in preparing the fiscal year 2016-17 budget for the City of Harker Heights.

During the current fiscal year, the fund balance in the general fund is projected to increase to \$9.1 million. The General Fund's largest single revenue source is property taxes. The property tax rate for FY 2016-2017 is \$0.6770 per \$100 valuation. Of this tax rate 76.78 percent or \$0.5198 is utilized for General Fund activities. The remaining 23.22 percent or \$0.1572 is used for debt service. The General Fund's portion of property tax revenue for FY 2016-17 is estimated to be \$8.5 million. Sales tax revenue for FY 2016-17 is budgeted at \$6.5 million.

The largest revenue source for the water and sewer fund is water sales at \$5.5 million. The rate for FY 2016-17 is \$10.28 as a base rate and \$3.20 per 1,000 gallons used. The second largest revenue source for the water and sewer fund is sewer charges at \$3.5 million based on a FY 2016-17 base rate of \$18.53 plus \$3.10 per 1,000 gallons over 3,000 gallons and caps at 10,000 gallons. These rates are the same as the rates set for FY 2015-16.

Sanitation fees for residential garbage are \$18.33 per month which remained the same from FY 2015-16.

The drainage fee also remained at \$6.00 per single family dwellings per month.

Requests for Information

This financial report is designed to provide a general overview of the City of Harker Heights' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Harker Heights, Finance Director, 305 Miller's Crossing, Harker Heights, Texas, 76548.



CITY OF HARKER HEIGHTS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2016

| | Primary Government | | |
|---|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash | \$ 3,359,947 | \$ 404,822 | \$ 3,764,769 |
| Investments | 11,376,259 | 2,058,187 | 13,434,446 |
| Receivables (net of allowance for uncollectibles) | | | |
| Taxes | 114,225 | | 114,225 |
| Accounts | 855,927 | 1,258,416 | 2,114,343 |
| Special assessments | 66 | | 66 |
| Internal Balances | 844,826 | (844,826) | 0 |
| Due from other governments | 18,105 | | 18,105 |
| Inventory of supplies, at first in, first out | | 101,371 | 101,371 |
| Restricted Assets: | | | |
| Restricted cash | 727,738 | 66,550 | 794,288 |
| Restricted investments | 1,035,958 | 407,147 | 1,443,105 |
| Capital assets (net of accumulated depreciation): | | | |
| Land | 15,575,872 | 284,683 | 15,860,555 |
| Building and lift stations | 6,720,118 | 1,582,213 | 8,302,331 |
| Improvements other than buildings | 107,166 | 4,046 | 111,212 |
| Furniture and fixtures | 98,548 | | 98,548 |
| Machinery and equipment | 1,352,762 | 625,281 | 1,978,043 |
| Vehicles | 2,202,278 | 110,001 | 2,312,279 |
| Infrastructure | 22,049,400 | 42,677,928 | 64,727,328 |
| Construction in progress | 8,485,842 | 3,348,204 | 11,834,046 |
| Total Assets | <u>74,925,037</u> | <u>52,084,023</u> | <u>127,009,060</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred amount on refunding of debt | 623,106 | 521,159 | 1,144,265 |
| Deferred outflows related to pensions | 3,003,510 | 224,424 | 3,227,934 |
| Total Deferred Outflows of Resources | <u>3,626,616</u> | <u>745,583</u> | <u>4,372,199</u> |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | 3,003,647 | | 3,003,647 |
| Accrued interest payable | 111,761 | 83,534 | 195,295 |
| Refundable meter deposit | | 329,108 | 329,108 |
| Unearned revenue | 657,330 | | 657,330 |
| Noncurrent liabilities: | | | |
| Due within one year | 2,458,874 | 1,350,731 | 3,809,605 |
| Due in more than one year | 26,388,635 | 19,190,225 | 45,578,860 |
| Net pension liability (City's share) | 9,531,188 | 720,902 | 10,252,090 |
| Total Liabilities | <u>42,151,435</u> | <u>21,674,500</u> | <u>63,825,935</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pensions | 170,145 | 12,591 | 182,736 |
| NET POSITION | | | |
| Net investment in capital assets | 30,533,730 | 28,727,039 | 59,260,769 |
| Restricted for: | | | |
| Economic development | 84,743 | | 84,743 |
| Public safety | 174,362 | | 174,362 |
| Debt service | 55,468 | 39,286 | 94,754 |
| Capital projects | 1,495,871 | 670,207 | 2,166,078 |
| Cemetery | 17,699 | | 17,699 |
| Assigned to: | | | |
| Culture and recreation | 242,854 | | 242,854 |
| Capital projects | 2,855,878 | | 2,855,878 |
| Unrestricted | 769,468 | 1,705,983 | 2,475,451 |
| Total Net Position | <u>\$ 36,230,073</u> | <u>\$ 31,142,515</u> | <u>\$ 67,372,588</u> |

The notes to the financial statement are an integral part of this statement.

CITY OF HARKER HEIGHTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| <u>FUNCTION/PROGRAM ACTIVITY</u> | <u>Expenses</u> | <u>Program Revenues</u> | | |
|---------------------------------------|----------------------|--|--|---|
| | | <u>Fees, Fines, and Charges for Services</u> | <u>Operating Grant and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General government | \$ 3,865,673 | \$ 249,153 | \$ 12,948 | |
| Public safety | 12,715,033 | 1,553,658 | 1,038,468 | |
| Highways and streets | 880,400 | | | |
| Culture and recreation | 3,378,252 | 291,002 | 31,520 | |
| Economic development and assistance | 409,990 | 277,501 | | |
| Interest and fiscal charges | 1,031,639 | | | |
| Total governmental activities | 22,280,987 | 2,371,314 | 1,082,936 | |
| Business-type Activities: | | | | |
| Water and Sewer | 6,356,266 | 9,352,906 | | |
| Sanitation | 1,743,000 | 1,941,443 | | |
| Drainage | 358,504 | 797,069 | | |
| Total business-type activities | 8,457,770 | 12,091,418 | | |
| Total primary government | \$ 30,738,757 | \$ 14,462,732 | \$ 1,082,936 | |

General revenues:
Property taxes
Sales taxes
Mixed drink taxes
Bingo taxes
Hotel/Motel taxes
Franchise fees
Investment earnings
Gain from sale of capital assets
Transfers

Total general revenues and transfers

Change in net position

Net position – beginning

Net position - ending

The notes to the financial statement are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

| Primary Government | | |
|----------------------------|-----------------------------|-----------------|
| Governmental Activities | Business-type Activities | Total |
| \$ (3,603,572) | | \$ (3,603,572) |
| (10,122,907) | | (10,122,907) |
| (880,400) | | (880,400) |
| (3,055,730) | | (3,055,730) |
| (132,489) | | (132,489) |
| (1,031,639) | | (1,031,639) |
| (18,826,737) | | (18,826,737) |
| | 2,996,640 | 2,996,640 |
| | 198,443 | 198,443 |
| | 438,565 | 438,565 |
| | 3,633,648 | 3,633,648 |
| \$ (18,826,737) | \$ 3,633,648 | \$ (15,193,089) |
| 10,832,669 | | 10,832,669 |
| 6,626,838 | | 6,626,838 |
| 110,880 | | 110,880 |
| 52,129 | | 52,129 |
| 75,361 | | 75,361 |
| 1,297,446 | 160,891 | 1,458,337 |
| 115,169 | 17,576 | 132,745 |
| 63,398 | (63,398) | |
| 19,173,890 | 115,069 | 19,288,959 |
| 347,153 | 3,748,717 | 4,095,870 |
| 35,882,920 | 27,393,798 | 63,276,718 |
| \$ 36,230,073 | \$ 31,142,515 | \$ 67,372,588 |

FUNCTION/PROGRAM ACTIVITY

Primary Government:

Governmental Activities:

- General government
- Public safety
- Highways and streets
- Culture and recreation
- Economic development and assistance
- Interest and fiscal charges

Total governmental activities

Business-type Activities:

- Water and Sewer
- Sanitation
- Drainage

Total business-type activities

Total primary government

General revenues:

- Property taxes
- Sales taxes
- Mixed drink taxes
- Bingo taxes
- Hotel/Motel taxes
- Franchise fees
- Investment earnings
- Gain from sale of capital assets
- Transfers

Total general revenues and transfers

Change in net position

Net position – beginning

Net position - ending

The notes to the financial statement are an integral part of this statement.

CITY OF HARKER HEIGHTS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2016

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> |
|---|--------------------------|-------------------------|-----------------------------|
| ASSETS | | | |
| Cash | \$ 1,868,623 | \$ 57,206 | \$ 1,335,338 |
| Investments | 8,450,452 | 37,864 | 2,758,096 |
| Receivables (net of allowance for uncollectibles): | | | |
| Taxes | 60,668 | 53,557 | |
| Accounts | 844,498 | | |
| Special Assessments | 66 | | |
| Due from other funds | 1,814,461 | | |
| Due from other governments | 5,533 | 12,572 | |
| Restricted assets: | | | |
| Cash | 250,649 | | 477,089 |
| Investments | 17,176 | | 1,018,782 |
| Total Assets | <u>\$ 13,312,126</u> | <u>\$ 161,199</u> | <u>\$ 5,589,305</u> |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | \$ 2,595,416 | | \$ 408,231 |
| Due to other funds | 97,648 | 59,071 | 829,325 |
| Unearned revenue | 657,330 | | |
| Total Liabilities | <u>3,350,394</u> | <u>59,071</u> | <u>1,237,556</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Property tax not yet available | 38,305 | 46,660 | |
| Total deferred inflows of resources | <u>38,305</u> | <u>46,660</u> | |
| Fund Balances: | | | |
| Nonspendable | | | |
| Restricted for: | | | |
| Economic development | | | |
| Public safety | 2,640 | | |
| Debt service | | 55,468 | |
| Capital projects | | | 1,495,871 |
| Cemetery | 17,699 | | |
| Committed | | | |
| Assigned to: | | | |
| Culture and recreation | 242,854 | | |
| Capital projects | | | 2,855,878 |
| Unassigned | 9,660,234 | | |
| Total Fund Balances | <u>9,923,427</u> | <u>55,468</u> | <u>4,351,749</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 13,312,126</u> | <u>\$ 161,199</u> | <u>\$ 5,589,305</u> |

The notes to the financial statements are an integral part of this statement.

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 98,780 | \$ 3,359,947 |
| 129,847 | 11,376,259 |
| | 114,225 |
| 11,429 | 855,927 |
| | 66 |
| 16,409 | 1,830,870 |
| | 18,105 |
| | 727,738 |
| | 1,035,958 |
| <u>\$ 256,465</u> | <u>\$ 19,319,095</u> |
| | \$ 3,003,647 |
| | 986,044 |
| | 657,330 |
| | <u>4,647,021</u> |
| | 84,965 |
| | <u>84,965</u> |
| 84,743 | 84,743 |
| 171,722 | 174,362 |
| | 55,468 |
| | 1,495,871 |
| | 17,699 |
| | 242,854 |
| | 2,855,878 |
| | 9,660,234 |
| <u>256,465</u> | <u>14,587,109</u> |
| <u>\$ 256,465</u> | <u>\$ 19,319,095</u> |

ASSETS

Cash
Investments
Receivables (net of allowance for uncollectibles):
 Taxes
 Accounts
 Special Assessments
Due from other funds
Due from other governments
Restricted assets:
 Cash
 Investments

Total Assets

LIABILITIES

Accounts payable and
accrued liabilities
Due to other funds
Unearned revenue

Total Liabilities

DEFERRED INFLOWS OF RESOURCES

Property tax not yet available

Total deferred inflows of resources

Fund Balances:

Nonspendable
Restricted for:
 Economic development
 Public safety
 Debt service
 Capital projects
 Cemetery
Committed
Assigned to:
 Culture and recreation
 Capital projects
Unassigned

Total Fund Balances

Total Liabilities, Deferred Inflows of Resources
and Fund Balances

The notes to the financial statements are an integral part of this statement.



CITY OF HARKER HEIGHTS
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:

| | |
|--|-----------------------------|
| Total fund balance per balance sheet | \$ 14,587,109 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 56,591,986 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | 84,962 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. | <u>(35,033,984)</u> |
| Net position of governmental activities | <u><u>\$ 36,230,073</u></u> |

CITY OF HARKER HEIGHTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> |
|---------------------------------------|---------------------|---------------------|-----------------------------|
| REVENUES | | | |
| Taxes and special assessments: | | | |
| Property | \$ 8,322,400 | \$ 2,567,015 | |
| Other taxes and special assessments | 7,912,198 | | |
| Licenses and permits | 320,130 | | |
| Fines | 741,760 | | |
| Charges for services | 856,542 | | |
| Intergovernmental | 187,373 | | 259,215 |
| Investment earnings | 68,933 | 2,385 | 18,370 |
| Contributions and donations | 811,443 | | |
| Miscellaneous | 231,673 | | 24,697 |
| | <u>19,452,452</u> | <u>2,569,400</u> | <u>302,282</u> |
| Total Revenues | | | |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 3,668,155 | | |
| Public safety | 12,021,681 | | |
| Highways and streets | 1,540,501 | | |
| Culture and recreation | 2,921,860 | | |
| Economic development and assistance | 369,043 | | |
| Debt service: | | | |
| Principal | 227,492 | 1,665,532 | |
| Interest and fiscal charges | 10,119 | 999,876 | |
| Tax collection fees | | 29,406 | |
| Bond Issuance Cost | | 24,636 | |
| Capital outlay | | | 7,431,924 |
| | <u>20,758,851</u> | <u>2,719,450</u> | <u>7,431,924</u> |
| Total Expenditures | | | |
| Excess (Deficiency) of Revenues | | | |
| Over (Under) Expenditures | <u>(1,306,399)</u> | <u>(150,050)</u> | <u>(7,129,642)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Capital Leases | 208,000 | | |
| Issuance of refunding bonds | | 1,985,000 | |
| Premium on refunding bonds | | 163,605 | |
| Payment to refunded bond escrow agent | | (2,105,858) | |
| Transfers in | 1,375,000 | 55,000 | 2,170,120 |
| Transfers out | <u>(555,000)</u> | | <u>(2,961,602)</u> |
| | <u>1,028,000</u> | <u>97,747</u> | <u>(791,482)</u> |
| Total Other Financing Sources (Uses) | | | |
| Net Change in Fund Balances | (278,399) | (52,303) | (7,921,124) |
| Fund Balances -Beginning | <u>10,201,826</u> | <u>107,771</u> | <u>12,272,873</u> |
| Fund Balances - Ending | <u>\$ 9,923,427</u> | <u>\$ 55,468</u> | <u>\$ 4,351,749</u> |

The notes to the financial statements are an integral part of this statement.

| Other Governmental Funds | Total Governmental Fund | |
|--------------------------------|-------------------------------|---------------------------------------|
| | \$ 10,889,415 | REVENUES |
| 75,361 | 7,987,559 | Taxes and special assessments: |
| | 320,130 | Property |
| 79,511 | 821,271 | Other taxes and special assessments |
| | 856,542 | Licenses and permits |
| | 446,588 | Fines |
| 772 | 90,460 | Charges for services |
| | 811,443 | Intergovernmental |
| | 256,370 | Investment earnings |
| | | Contributions and donations |
| | | Miscellaneous |
| 155,644 | 22,479,778 | Total Revenues |
| | | EXPENDITURES |
| | | Current: |
| 421 | 3,668,576 | General government |
| 55,000 | 12,076,681 | Public safety |
| | 1,540,501 | Highways and streets |
| | 2,921,860 | Culture and recreation |
| 97,317 | 466,360 | Economic development and assistance |
| | 1,893,024 | Debt service: |
| | 1,009,995 | Principal |
| | 29,406 | Interest and fiscal charges |
| | 24,636 | Tax collection fees |
| | 7,431,924 | Bond Issuance Cost |
| | | Capital outlay |
| 152,738 | 31,062,963 | Total Expenditures |
| | | Excess (Deficiency) of Revenues |
| 2,906 | (8,583,185) | Over (Under) Expenditures |
| | | OTHER FINANCING SOURCES (USES) |
| | 208,000 | Capital Leases |
| | 1,985,000 | Issuance of refunding bonds |
| | 163,605 | Premium on refunding bonds |
| | (2,105,858) | Payment to refunded bond escrow agent |
| | 3,600,120 | Transfers in |
| (20,120) | (3,536,722) | Transfers out |
| (20,120) | 314,145 | Total Other Financing Sources (Uses) |
| (17,214) | (8,269,040) | Net Change in Fund Balances |
| 273,679 | 22,856,149 | Fund Balances – Beginning |
| \$ 256,465 | \$ 14,587,109 | Fund Balances - Ending |

The notes to the financial statements are an integral part of this statement.



CITY OF HARKER HEIGHTS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|--|-------------------|
| Net change in fund balances – total governmental funds | \$ (8,269,040) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. | 9,433,096 |
| Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. | (1,991,593) |
| The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, transfers, disposals, and donations) is to increase net position. | (64,801) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 84,965 |
| Compensated absences are accrued on the government-wide statement of net position, but do not require the use of current financial resources. The current period change in compensated absences is reported in the government-wide statement of activities and changes in net position. This is the net decrease in absences not reported as an expenditure in governmental funds. | 8,000 |
| Net pension obligation is accrued on the government-wide statement of net position, but does not require the use of current financial resources. The current period change in net pension obligation is reported in the government-wide statement of activities and changes in net position. This is an increase to net position of governmental funds. | (456,759) |
| The net decrease in the other postemployment benefit obligation (OPEB) is not reported in the funds. | (140,660) |
| The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | 1,820,122 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | (88,910) |
| Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as an expenditure in governmental funds. | 12,733 |
| Change in net position of governmental activities | <u>\$ 347,153</u> |

CITY OF HARKER HEIGHTS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –

BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget |
|--|-------------------|-------------------|-------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| REVENUES | | | | |
| Taxes and special assessments: | | | | |
| Property | \$ 8,251,000 | \$ 8,251,000 | \$ 8,322,400 | \$ 71,400 |
| Other taxes and special assessments | 8,375,000 | 8,375,000 | 7,912,198 | (462,802) |
| Licenses and permits | 370,000 | 370,000 | 320,130 | (49,870) |
| Fines | 1,140,000 | 1,140,000 | 741,760 | (398,240) |
| Charges for services | 826,000 | 826,000 | 856,542 | 30,542 |
| Intergovernmental | 186,200 | 186,200 | 187,373 | 1,173 |
| Investment earnings | 30,000 | 30,000 | 68,933 | 38,933 |
| Contributions and donations | | | 811,443 | 811,443 |
| Miscellaneous | 26,000 | 26,000 | 231,673 | 205,673 |
| Total Revenue | 19,204,200 | 19,204,200 | 19,452,452 | 248,252 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government: | | | | |
| Council | 233,600 | 233,600 | 212,672 | 20,928 |
| Administration | 2,198,200 | 2,198,200 | 2,336,649 | (138,449) |
| Finance | 658,600 | 658,600 | 660,283 | (1,683) |
| Pet Adoption Center | 415,700 | 415,700 | 458,551 | (42,851) |
| Public safety: | | | | |
| Police | 6,023,700 | 6,023,700 | 6,509,076 | (485,376) |
| Courts | 1,000,500 | 1,000,500 | 762,752 | 237,748 |
| Code enforcement | 582,500 | 582,500 | 520,060 | 62,440 |
| Fire/EMS | 4,246,000 | 4,246,000 | 4,229,793 | 16,207 |
| Highways and streets: | | | | |
| Streets | 1,302,000 | 1,302,000 | 1,304,171 | (2,171) |
| Maintenance | 277,700 | 277,700 | 236,330 | 41,370 |
| Culture and recreation: | | | | |
| Library | 712,200 | 712,200 | 668,416 | 43,784 |
| Parks and recreation | 2,344,100 | 2,344,100 | 2,253,444 | 90,656 |
| Economic development and assistance | 364,500 | 364,500 | 369,043 | (4,543) |
| Debt Service: | | | | |
| Principal | 227,500 | 227,500 | 227,492 | 8 |
| Interest and fiscal charges | 10,100 | 10,100 | 10,119 | (19) |
| Total Expenditures | 20,596,900 | 20,596,900 | 20,758,851 | (161,951) |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | \$ (1,392,700) | \$ (1,392,700) | \$ (1,306,399) | \$ 86,301 |

The notes to the financial statement are an integral part of this statement.

CITY OF HARKER HEIGHTS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget |
|---------------------------------------|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Capital Leases | | | 208,000 | 208,000 |
| Sale of capital assets proceeds | | | | |
| Transfers in | 805,000 | 805,000 | 1,375,000 | 570,000 |
| Transfers out | (355,000) | (355,000) | (555,000) | (200,000) |
| Total Other Financing Sources (Uses) | <u>450,000</u> | <u>450,000</u> | <u>1,028,000</u> | <u>578,000</u> |
| Net Change in Fund Balances | (942,700) | (942,700) | (278,399) | 664,301 |
| Fund Balances – Beginning | <u>8,514,687</u> | <u>8,514,687</u> | <u>10,201,826</u> | |
| Fund Balances – Ending | <u>\$ 7,571,987</u> | <u>\$ 7,571,987</u> | <u>\$ 9,923,427</u> | <u>\$ 664,301</u> |

The notes to the financial statement are an integral part of this statement.

CITY OF HARKER HEIGHTS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

SEPTEMBER 30, 2016

| | Business-type Activities – Enterprise Funds | | | |
|---|---|--------------------|-----------------------------|------------------------------|
| | Water and Sewer Fund | Sanitation Fund | Drainage Utility Fund | Total Enterprise Funds |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash | \$ 255,586 | \$ 141,547 | \$ 7,689 | \$ 404,822 |
| Investments | 2,015,088 | 37,845 | 5,254 | 2,058,187 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Accounts | 976,136 | 203,097 | 79,183 | 1,258,416 |
| Due from other funds | 97,703 | 525 | 1,087 | 99,315 |
| Inventory of supplies, at first-in, first-out cost | 101,371 | | | 101,371 |
| Restricted cash | 63,083 | | 3,467 | 66,550 |
| Restricted investments | 403,990 | | 3,157 | 407,147 |
| Total Current Assets | 3,912,957 | 383,014 | 99,837 | 4,395,808 |
| Noncurrent Assets: | | | | |
| Capital Assets | | | | |
| Land and improvements | 159,523 | | 125,160 | 284,683 |
| Buildings and lift stations | 3,128,004 | | | 3,128,004 |
| Improvements other than buildings | 1,144 | 23,728 | | 24,872 |
| Furniture and fixtures | 12,375 | | | 12,375 |
| Machinery and equipment | 1,513,910 | 19,326 | 232,662 | 1,765,898 |
| Vehicles | 611,571 | | 92,354 | 703,925 |
| Water, sewer, and drainage systems | 47,271,357 | | 5,820,763 | 53,092,120 |
| Construction in progress | 3,348,204 | | | 3,348,204 |
| Less accumulated depreciation | (12,912,985) | (38,502) | (776,238) | (13,727,725) |
| Total Capital Assets (Net of Depreciation) | 43,133,103 | 4,552 | 5,494,701 | 48,632,356 |
| Total Noncurrent Assets | 43,133,103 | 4,552 | 5,494,701 | 48,632,356 |
| Total Assets | \$ 47,046,060 | \$ 387,566 | \$ 5,594,538 | \$ 53,028,164 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred amount on refunding of debt | 521,159 | | | 521,159 |
| Deferred outflows related to pensions | 186,505 | 5,700 | 32,219 | 224,424 |
| Total Deferred Outflows of Resources | \$ 707,664 | \$ 5,700 | \$ 32,219 | \$ 745,583 |

The notes to the financial statements are an integral part of this statement.

CITY OF HARKER HEIGHTS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS (CONTINUED)
SEPTEMBER 30, 2016

| | Business-type Activities – Enterprise Funds | | | |
|---|---|--------------------|-----------------------------|------------------------------|
| | Water and Sewer Fund | Sanitation Fund | Drainage Utility Fund | Total Enterprise Funds |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Due to other funds | \$ 657,431 | \$ 282,240 | \$ 4,470 | \$ 944,141 |
| Refundable meter deposits | 329,108 | | | 329,108 |
| Accrued interest payable | 76,238 | | 7,296 | 83,534 |
| Capital leases payable - current | | | | |
| Accrued compensated absences - current | 27,000 | 1,000 | 8,000 | 36,000 |
| General obligation bonds - current | 500,807 | | 38,924 | 539,731 |
| Certificates of obligation - current | 705,000 | | 70,000 | 775,000 |
| Total Current Liabilities | 2,295,584 | 283,240 | 128,690 | 2,707,514 |
| Noncurrent Liabilities: | | | | |
| Accrued compensated absences | 5,000 | | 3,000 | 8,000 |
| Net pension liability | 600,134 | 16,408 | 104,360 | 720,902 |
| Net other postemployment benefit obligation | 60,699 | 3,260 | 6,521 | 70,480 |
| Capital leases payable | | | | |
| General obligation bonds payable | 9,227,827 | | 432,898 | 9,660,725 |
| Certificates of obligation | 8,457,389 | | 993,631 | 9,451,020 |
| Total Noncurrent Liabilities | 18,351,049 | 19,668 | 1,540,410 | 19,911,127 |
| Total Liabilities | \$ 20,646,633 | \$ 302,908 | \$ 1,669,100 | \$ 22,618,641 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred inflows related to pensions | \$ 10,449 | \$ 346 | \$ 1,796 | \$ 12,591 |
| NET POSITION | | | | |
| Net investment in capital assets | 24,763,239 | 4,552 | 3,959,248 | 28,727,039 |
| Restricted for debt service | 32,662 | | 6,624 | 39,286 |
| Restricted for capital projects | 670,207 | | | 670,207 |
| Unrestricted | 1,630,534 | 85,460 | (10,011) | 1,705,983 |
| Total Net Position | \$ 27,096,642 | \$ 90,012 | \$ 3,955,861 | \$ 31,142,515 |

The notes to the financial statements are an integral part of this statement.



CITY OF HARKER HEIGHTS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Business-type Activities – Enterprise Funds | | | Total Enterprise Funds |
|---|---|--------------------|-----------------------------|------------------------------|
| | Water and Sewer Fund | Sanitation Fund | Drainage Utility Fund | |
| OPERATING REVENUES | | | | |
| Charges for services | \$ 9,340,150 | \$ 1,940,142 | \$ 796,111 | \$ 12,076,403 |
| Franchise fees | | 160,891 | | 160,891 |
| Other | 12,756 | 1,301 | 958 | 15,015 |
| Total Operating Revenues | <u>9,352,906</u> | <u>2,102,334</u> | <u>797,069</u> | <u>12,252,309</u> |
| OPERATING EXPENSES | | | | |
| Water purchases | 2,109,504 | | | 2,109,504 |
| Contractual services | 349,048 | 1,664,567 | 2,175 | 2,015,790 |
| Personal services | 1,272,184 | 57,226 | 130,272 | 1,459,682 |
| Utilities and telephone | 504,772 | 1,085 | | 505,857 |
| Repairs and maintenance | 436,019 | 3,926 | 41,372 | 481,317 |
| Supplies | 126,019 | 462 | 10,696 | 137,177 |
| Uncollectible accounts | 53,782 | 9,699 | 3,101 | 66,582 |
| Professional fees | 143,695 | 500 | | 144,195 |
| Depreciation | 888,071 | 5,535 | 115,594 | 1,009,200 |
| Other | 853 | | 170 | 1,023 |
| Total Operating Expenses | <u>5,883,947</u> | <u>1,743,000</u> | <u>303,380</u> | <u>7,930,327</u> |
| Operating Income | <u>3,468,959</u> | <u>359,334</u> | <u>493,689</u> | <u>4,321,982</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Investment earnings | 16,627 | 516 | 433 | 17,576 |
| Taxes & assessments | | | | |
| Interest expense | (415,206) | | (55,124) | (470,330) |
| Bond issuance costs | (57,113) | | | (57,113) |
| Total Nonoperating Revenues (Expenses) | <u>(455,692)</u> | <u>516</u> | <u>(54,691)</u> | <u>(509,867)</u> |
| Income Before Transfers | 3,013,267 | 359,850 | 438,998 | 3,812,115 |
| Transfers In | 2,961,602 | | | 2,961,602 |
| Transfers Out | (2,150,000) | (425,000) | (450,000) | (3,025,000) |
| Change in Net Position | 3,824,869 | (65,150) | (11,002) | 3,748,717 |
| Total Net Position - Beginning | 23,271,773 | 155,162 | 3,966,863 | 27,393,798 |
| Total Net Position – Ending | <u>\$ 27,096,642</u> | <u>\$ 90,012</u> | <u>\$ 3,955,861</u> | <u>\$ 31,142,515</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF HARKER HEIGHTS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

Business-type Activities - Enterprise Funds

| | <u>Water and Sewer Fund</u> | <u>Sanitation Fund</u> | <u>Drainage Utility Fund</u> | <u>Total Enterprise Funds</u> |
|--|---------------------------------|----------------------------|----------------------------------|---------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Cash received from customers | \$ 9,357,839 | \$ 1,918,673 | \$ 787,620 | \$ 12,064,132 |
| Cash payments to suppliers | (3,724,208) | (1,551,478) | (120,435) | (5,396,121) |
| Cash payments to employees | (1,224,260) | (55,611) | (124,761) | (1,404,632) |
| Franchise fees | | 160,891 | | 160,891 |
| Other operating cash receipts (payments) | (687,971) | 2,607 | 18,706 | (666,658) |
| Net Cash Provided By Operating Activities | <u>3,721,400</u> | <u>475,082</u> | <u>561,130</u> | <u>4,757,612</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | |
| Transfers in | 2,961,602 | | | 2,961,602 |
| Transfers out | (2,150,000) | (425,000) | (450,000) | (3,025,000) |
| Net Cash Provided (Used) By Noncapital Financing Activities | <u>811,602</u> | <u>(425,000)</u> | <u>(450,000)</u> | <u>(63,398)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Acquisition and construction of capital assets | (3,468,607) | | | (3,468,607) |
| Proceeds from issuance of debt | 4,541,131 | | | 4,541,131 |
| Principal repayments | (5,781,596) | | (102,872) | (5,884,468) |
| Interest paid on long-term debt | (425,499) | | (61,210) | (486,709) |
| Net Cash Provided (Used) By Capital and Related Financing Activities | <u>(5,134,571)</u> | | <u>(164,082)</u> | <u>(5,298,653)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Proceeds from sales and maturities of investments | (263,328) | | | (263,328) |
| Purchase of investments | | (114) | (25) | (139) |
| Interest & penalties received | 16,627 | 516 | 433 | 17,576 |
| Net Cash Provided (Used) By Investing Activities | <u>(246,701)</u> | <u>402</u> | <u>408</u> | <u>(245,891)</u> |
| Net Increase (Decrease) in Cash For The Year | (848,270) | 50,484 | (52,544) | (850,330) |
| Cash - Beginning | <u>1,166,939</u> | <u>91,063</u> | <u>63,700</u> | <u>1,321,702</u> |
| Cash - Ending | <u>\$ 318,669</u> | <u>\$ 141,547</u> | <u>\$ 11,156</u> | <u>\$ 471,372</u> |
| Reconciliation of cash: | | | | |
| Cash | \$ 255,586 | \$ 141,547 | \$ 7,689 | \$ 404,822 |
| Restricted Cash | 63,083 | | 3,467 | 66,550 |
| Total Cash | <u>\$ 318,669</u> | <u>\$ 141,547</u> | <u>\$ 11,156</u> | <u>\$ 471,372</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF HARKER HEIGHTS
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

| | <u>Business-type Activities - Enterprise Funds</u> | | | <u>Total Enterprise Funds</u> |
|--|--|----------------------------|----------------------------------|---------------------------------------|
| | <u>Water and Sewer Fund</u> | <u>Sanitation Fund</u> | <u>Drainage Utility Fund</u> | |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | | | |
| Operating Income | <u>\$ 3,468,959</u> | <u>\$ 359,334</u> | <u>\$ 493,689</u> | <u>\$ 4,321,982</u> |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | |
| Depreciation expense | 888,071 | 5,535 | 115,594 | 1,009,200 |
| Change in Assets and Liabilities: | | | | |
| (Increase) Decrease in accounts receivable | 12,998 | (11,770) | (8,320) | (7,092) |
| (Increase) Decrease in deferred outflow in net pension obligation | (97,230) | (3,431) | (16,634) | (117,295) |
| Increase in allowance for doubtful accounts | | | | |
| (Increase) Decrease in due from other funds | 3,127,963 | 1,306 | 17,747 | 3,147,016 |
| (Increase) Decrease in inventory | (516) | | | (516) |
| Increase (Decrease) in accounts payable and accrued liabilities | | | | |
| Increase (Decrease) in refundable meter deposits | 4,691 | | | 4,691 |
| Increase (Decrease) in due to other funds | (3,828,690) | 119,062 | (63,091) | (3,772,719) |
| Increase (Decrease) in compensated absences | 5,000 | | (1,000) | 4,000 |
| (Increase) Decrease in deferred inflow in net pension obligation | 8,191 | 289 | 1,402 | 9,882 |
| Increase (Decrease) in net pension obligation | 116,838 | 4,121 | 19,988 | 140,947 |
| Increase (Decrease) in net other postemployment benefit obligation | <u>15,125</u> | <u>636</u> | <u>1,755</u> | <u>17,516</u> |
| Total Adjustments | <u>252,441</u> | <u>115,748</u> | <u>67,441</u> | <u>435,630</u> |
| Net cash Provided By Operating Activities: | <u>\$ 3,721,400</u> | <u>\$ 475,082</u> | <u>\$ 561,130</u> | <u>\$ 4,757,612</u> |
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES: | | | | |
| Amortization of deferred amount on advanced refunding of certificates of obligation | \$ 52,343 | | | \$ 52,343 |
| Amortization of bond discount | <u>1,770</u> | | | <u>1,770</u> |
| Total Noncash Investing, Capital and Financing Activities | <u>\$ 54,113</u> | <u>\$</u> | <u>\$</u> | <u>\$ 54,113</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Harker Heights, Texas, a municipal corporation in Bell County, Texas, was incorporated under the general laws of the State of Texas in 1960. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, highways and streets, water service and sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City of Harker Heights have been prepared to conform with generally accepted accounting principles in the United States of America (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting and reporting policies are described below.

A. Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The City Council, which is elected at large, consists of a mayor and five council members constituting an ongoing entity and is the level of government that has governance responsibilities over all activities related to the City of Harker Heights. The criteria for including organizations as component units within the City's reporting entity include whether 1) the organization is legally separate (can sue and be sued in their own name, 2) the City holds the corporate powers of the organization, 3) the City appoints a voting majority of the organization's board, 4) the City is able to impose its will on the organization, 5) the organization has the potential to impose a financial benefit/burden on the City, and 6) there is fiscal dependency by the organization on the City. There are no component units that qualify for inclusion in the City's reporting entity.

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. In the reporting model as defined by GASB Statement No. 34, the focus is either the City as a whole or major individual funds (within the fund financial statements).

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Culture and Recreation, etc.) or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales, franchise taxes, intergovernmental revenues, interest income, etc.).

Separate fund based financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

separate columns in the funds financial statements. The major governmental funds are the general fund, debt service fund, and capital projects fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days of the end of the fiscal year. Grant revenues availability period is generally considered to be one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

Property taxes, franchise taxes, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes collected by Bell County Appraisal District at year-end on behalf of the City and sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. All other revenue items are considered to be measurable and available only when the City receives the cash.

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund, the sanitation enterprise fund, and the drainage utility enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The following major funds are used by the City:

1. Governmental Funds

The focus of Governmental fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the City:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in other funds.
- b. The Debt Service Fund accounts for the resources accumulated and payments made for principal, interest, and related costs on long-term general obligation debt of governmental funds paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is reserved to signify the amounts are restricted exclusively for debt service expenditures.
- c. The Capital Projects Fund accounts for the acquisition of capital assets or construction of major capital projects other than those financed by proprietary or trust funds.
- d. Other Governmental Funds is a summarization of all of the non-major governmental funds.

2. Proprietary Funds

The focus of Proprietary Fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows, which is similar to businesses. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, cost incurred and/or net income is necessary for management accountability.

Enterprise funds include the following funds:

- a. The Water and Sewer Fund accounts for the distribution of treated water and the collection and treatment of sewage activities. Activities of the fund include administration, operation and maintenance of the water and sewer system, and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.
- b. The Sanitation Fund accounts for the collection and disposal of garbage activities. Customers are billed monthly at a rate sufficient to cover the cost of providing such service.
- c. The Drainage Utility Fund accounts for the receipt of storm water utility fees for construction, operations, and maintenance of the City's storm water drainage system.

D. Cash and Investments

Cash includes cash on hand, amounts in demand deposits and money market fund deposits.

The City is authorized to make investments in accordance with "The Public Funds Investment Act of 1987". The City is also authorized by the Interlocal Cooperation Act, Articles 4413(32c) and 4413(34c), Vernon's Texas Civil Statutes, as amended, to invest in shares of a public funds investment pool. The City's investment policy authorizes certain investments that may be purchased by the City.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments (continued)

A detail listing of authorized investments is included in Part IV, Note 1 titled “Deposits and Investments.”

The City adopted GASB Statement No. 31 “Accounting and Financial Reporting for Certain Investments and for External Investment Pools” during the year ended September 30, 1998. Under GASB Statement No. 31, investments are reported at their fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Short-term nonparticipating interest-earning investment contracts (to include certificates of deposit) are reported using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. The term “short-term” refers to investments that have a remaining term of one year or less at time of purchase. The term “nonparticipating” means that the investment’s value does not vary with market interest rate changes.

The gain/loss resulting from valuation is reported within the revenue account “investment earnings” on the Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds, and the Statement of Revenues, Expenses and Changes in Fund Net Position for the Proprietary Funds.

The City has implemented GASB Statement No. 40 entitled “Deposit and Investment Risk Disclosures”. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk as well as modifying custodial credit risk disclosures.

E. Receivables and Payables and Interfund Transactions

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

All legally authorized transfers are appropriately treated as transfers and are included in the results of operations of both governmental and proprietary funds. Nonrecurring or non-routine transfers of equity between funds – for example, contribution of capital assets to a proprietary fund or transfers of residual balances of discontinued funds to other funds – are accounted for as transfers in the government-wide statements of activities and as capital contributions in the proprietary fund operating statement.

All service receivables are shown net of an allowance for uncollectibles. Service accounts receivable in excess of 90 days comprise the service accounts receivable allowance with the exception of ambulance receivable, which is 120 days. Property tax receivable allowance is equal to 61% of outstanding property taxes at the end of the fiscal year.

F. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Proprietary fund-type inventories are recorded as expenses when consumed rather than when purchased.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Restricted Assets

Certain investments and cash accounts are classified as restricted on the balance sheet because their use is limited to servicing debt, repaying refundable deposits, cemetery maintenance, public safety, culture and recreation, and specific construction projects.

H. Capital Assets

Capital assets (i.e. land, buildings, equipment, improvements other than buildings, which includes the City's infrastructure, and construction in progress) of all funds are stated at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

| | |
|-----------------------------------|-------------|
| Machinery and equipment | 3-12 years |
| Buildings | 20-50 years |
| Improvements other than buildings | 20-60 years |
| Infrastructure | 20-60 years |

I. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave, which is not vested. All vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Typically, the General Fund has been used in prior years to liquidate such amounts in governmental funds.

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs incurred are fully expensed in that reporting period.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles as applied to governmental units requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Fund Balance Classifications

The difference between assets and liabilities in the governmental fund balance sheets shall be organized into the following classifications:

Nonspendable – Not in a spendable form, such as inventory, or required to be maintained intact such as the principal of a permanent fund. As of September 30, 2016, the City did not have any nonspendable fund balances.

Restricted – Resources that are subject to constraints that are either imposed by law through constitutional provisions or enabling legislation, or externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. As of September 30, 2016, the City had restricted funds for economic development, public safety, debt service, capital projects, and cemetery.

Committed – Amounts that can only be used for specific purposes determined by formal approval of the Council. These amounts shall not be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action it used to commit the amounts. As of September 30, 2016, the City did not have any committed fund balances.

Assigned – Amounts that the City intends to use for a specific purpose and are neither restricted nor committed. The intent to assign amounts for a specific purpose shall be expressed by the Council. As of September 30, 2016, the City had assigned funds for culture and recreation and capital projects.

Unassigned – The residual classification for the general fund balance, including amounts that are not contained in the other classifications. Unassigned amounts are the portion of fund balance that is not obligated or specifically designated and is available for any purpose.

N. Use of Restricted, Committed, Assigned, and Unassigned Assets

When the City incurs an expense for which it may use either restricted, committed, assigned, or unassigned assets, the City shall reduce restricted, committed, and assigned assets first, in that order, unless unassigned assets would have to be returned because they were not used.

O. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements:

1. Statement No. 72, “Fair Value Measurement and Application.” The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2015.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. New Accounting Pronouncements (continued)

2. Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2015- except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged.
3. Statement No.74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans." The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2016.
4. Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2017.
5. Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2015.
6. Statement No. 77, "Tax Abatement Disclosures." The requirements of this Statement are effective for financial statements for fiscal years beginning after December 15, 2015.

P. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Q. Deferred Outflows of Resources

The City reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. Deferred outflows of resources reported in this year's financial statements include (1) a deferred amount arising from the refunding of bonds, (2) a deferred outflow of resources for contributions made to the City's defined benefit pension plans between the measurement date of the net pension liabilities from those plans and the end of the city's fiscal year, and (3) deferred outflows of resources related to the differences between the expected and actual demographics for the City's single-employer defined benefit fund. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The deferred amount related to the actuarial assumptions for demographic factors in the pension fund will be recognized over a closed period equal to the average of the expected remaining service lives of all employees participating in the plan.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Deferred Inflows of Resources

The City's statements of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Deferred inflows of resources are reported in the City's various statements of net position for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense. This deferred inflow of resources is attributed to pension expense over a total of 5 years, including the current year. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected not later than 60 days after the end of the City's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes and grants are reported in the governmental funds balance sheet.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$35,033,984 difference are as follows:

| | |
|--|--------------|
| Certificates of obligation | \$15,525,000 |
| Less: Issuance discount (to be amortized as interest expense) | (38,184) |
| General obligation refunding | 10,604,545 |
| Plus: Premium on issuance | 881,103 |
| Less: Deferred charges for advanced refunding costs (to be amortized as interest expense) | (623,106) |
| Accrued interest payable | 111,761 |
| Capital leases payable | 551,817 |
| Note payable | 0 |
| Compensated absences | 700,000 |
| Net pension liability | 9,531,188 |
| Deferred outflows related to pension | (3,003,512) |
| Deferred inflows related to pension | 170,145 |
| Net postemployments benefit obligation | 623,227 |
| Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities | \$35,033,984 |

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

The details of this \$1,820,122 difference are as follows:

| | |
|--|----------------------------|
| Current Year Issuance: | |
| Certificates of obligation (Net of Discount) | \$ (1,985,000) |
| Capital Leases | (208,000) |
| Bond Premium | <u>(163,604)</u> |
| Principal repayments: | |
| Payments to be refunded | \$ 2,214,430 |
| Certificates of obligation | 1,175,000 |
| General obligation refunding | 490,532 |
| Capital leases | 227,492 |
| Note payable | <u>69,272</u> |
| Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities | <u><u>\$ 1,820,122</u></u> |

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$(88,910) difference are as follows:

| | |
|--|--------------------------|
| Amortization of bond discounts | (4,201) |
| Amortization of advanced refunding costs | <u>(84,709)</u> |
| Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities | <u><u>\$(88,910)</u></u> |

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds except the capital project fund. The capital projects fund is budgeted in a multi-year manner. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department with approval of the City Manager. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level. The budget was approved September 8, 2015.

IV. DETAILED NOTES ON ALL FUNDS

1. Deposits and Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City of Harker Heights to invest its funds under a written investment policy that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. The investment policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under Chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the City Council. The investment policy includes a list of authorized investment instruments and a maximum allowable stated maturity of any individual investment. In addition it includes an "investment strategy statement" that specifically addresses each fund's investment strategy and maximum maturity of each fund's individual investments.

The Finance Director submits an investment report each quarter to the City Council. The report details the investment position of the City and the compliance of the investment portfolio as it relates to the investment policy and Texas State law.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Fully insured or collateralized certificates of deposit or share certificates at commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance.
2. A savings account issued by a depository institution that has its main office or a branch office in the State of Texas and meets the collateralization requirements as stated in the City's depository contract.
3. Eligible investment pools (as discussed in the Public Funds Investment Act, Section 2256.016-2256.019) if the City Council by resolution authorized investment in that particular pool. An investment pool shall invest the funds it receives from the City in authorized investments permitted by the Public Funds Investment Act.
4. Direct obligations of the United States Government or the State of Texas or their respective agencies and instrumentalities, which have a final maturity date of two years or less from the date of purchase.
5. Obligations of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Tennessee Valley Authority (TVA), or the Federal Home Loan Mortgage

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

Corporation (FHLMC), which have a final maturity date of two years or less from the date of purchase and do not exceed 50% of the portfolio.

6. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities.
7. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than A or its equivalent.

Under the City investment policy, the City may not invest in repurchase agreements, collateralized mortgage obligations, and any other investment instrument that is not specifically listed as an authorized investment.

The City has invested in certificate of deposits at local banking institutions as well as through a broker. Investments made through an authorized broker/dealer are in increments of less than the FDIC insurance maximum to ensure that both principal and interest are eligible for full FDIC insurance coverage. Certificate of deposits at local institutions are included with bank balances in determining collateral requirements. See deposit section for further discussion.

The City has invested in TexSTAR, an interlocal governmental investment pool. TexSTAR operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexSTAR uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexSTAR is the same as the value of the TexSTAR shares.

The City has invested in Texas Class, which enables local governments to pool funds with other units of government. Texas Class is administered by Public Trust Advisors. Texas Class uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in Texas Class is the same as the value of the Texas Class shares.

The City has invested in Lone Star Investment Pool, a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star Investment Pool's Government Overnight Fund uses a dollar weighted average maturity of 60 days or fewer and the net asset value of the shares invested are expected to maintain a net asset value of approximately \$1.00. The net asset value of the shares invested in the fund is determined daily to ensure that the market value of the Fund's assets is maintained at one dollar.

The City does not own specific, identifiable investments with TexSTAR, Texas Class, or Lone Star Investment Pool. The City considers the holdings in these pools to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

Deposits – Custodial credit risk for deposits is the risk in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City's deposits, including certificates of deposit, were fully insured or collateralized with securities held by the City or its agent in the City's name or by the pledging financial institution's trust department or agent in the City's name at September 30, 2016.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

At September 30, 2016, the carrying amount of the City's bank deposits was \$4,557,467, and the respective bank balances totaled \$4,894,145. Of the bank balances, \$500,000 was covered by federal depository insurance. Collateral for the bank balances and certificate of deposit balances over the federal depository insurance amount consisted of securities with a fair market value of \$13,964,350 at September 30, 2016.

Investments – Custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's investment policy requires that securities be insured and registered in the name of the City. All safekeeping receipts for investment instruments are held in accounts in the City's name, and all securities are registered in the City's name.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. In accordance with its investment policy, the City manages its interest rate risk by limiting the maturity of its investment portfolio to two years or less. Also, the City may not invest more than 20% of the investment portfolio for a period greater than one year. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's investment policy requires multiple brokers/dealers for its investment portfolio. The City may not invest more than 50% of the portfolio in one agency.

Credit risk is the risk that an issuer or other counterparty will not fulfill its obligations. Such risk shall be controlled by investing in compliance with the City's investment policy, qualifying the broker and financial institution with whom the City will transact, portfolio diversification, and limiting maturity.

The following table includes the portfolio balances of all investment types of the City at September 30, 2016.

| | Fair Value/Carrying Value | | | Cost | Weighted Average Days to Maturity (1) |
|---|---------------------------|--------------------------|---------------------|---------------------|---------------------------------------|
| | Governmental Activities | Business-type Activities | Total | | |
| Investments: | | | | | |
| Certificates of deposit | \$11,079,818 | \$ 2,167,464 | \$13,247,282 | \$13,247,282 | 190 |
| Local government investment pools | | | | | |
| TexSTAR | 121,391 | 210,442 | 331,833 | 331,833 | 1 |
| Texas Class | 1,147,085 | 3,647 | 1,150,732 | 1,150,732 | 1 |
| Lone Star Investment Pool | 63,923 | 83,781 | 147,704 | 147,704 | 1 |
| Total local government investment pools | <u>1,332,399</u> | <u>297,870</u> | <u>1,630,269</u> | <u>1,630,269</u> | |
| Total Investments | <u>\$12,412,217</u> | <u>\$ 2,465,334</u> | <u>\$14,877,551</u> | <u>\$14,877,551</u> | |

(1) Interest rate risk is estimated using weighted average days to maturity.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

As of September 30, 2016, the City of Harker Heights' investments were rated by Standard & Poor's as follows:

| | Average Credit Quality/ Ratings |
|---------------------------|---------------------------------------|
| Tex STAR | AAAm |
| MBIA Texas Class | AAAm |
| Lone Star Investment Pool | AAAm |

A reconciliation of cash and investments as shown on the Statement of Net Position for the City follows:

| | |
|--------------------------------|---------------|
| Cash on hand | \$ 1,590 |
| Carrying amount of deposits | 4,557,467 |
| Carrying amount of investments | 14,877,551 |
| Total Cash and Investments | \$ 19,436,608 |
| | |
| Cash | \$ 3,764,769 |
| Cash – restricted | 794,288 |
| Investments | |
| Short-Term | 13,434,446 |
| Investments – restricted | |
| Short-Term | 1,443,105 |
| Total Cash and Investments | \$ 19,436,608 |

2. Receivables

Receivables at September 30, 2016, for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following:

| | General | Debt Service | Hotel/ Motel | Water and Sewer | Sanitation | Drainage Utility | Total |
|------------------------------|------------|-----------------|-----------------|--------------------|------------|---------------------|--------------|
| Receivables: | | | | | | | |
| Taxes | \$ 173,668 | \$ 53,557 | | | | | \$ 227,225 |
| Accounts | 1,918,398 | | 11,429 | 1,016,559 | 207,097 | 80,183 | 3,233,666 |
| Special | | | | | | | |
| assessments | 11,766 | | | 18,577 | | | 30,343 |
| Intergovernmental | 5,533 | 12,572 | | | | | 18,105 |
| Gross receivables | 2,109,365 | 66,129 | 11,429 | 1,035,136 | 207,097 | 80,183 | 3,509,339 |
| Less: | | | | | | | |
| Allowance for uncollectibles | 1,198,600 | | | 59,000 | 4,000 | 1,000 | 1,262,600 |
| Net total receivables | \$ 910,765 | \$ 66,129 | \$ 11,429 | \$ 976,136 | \$ 203,097 | \$ 79,183 | \$ 2,246,739 |

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS

3. Capital Assets

Capital asset activity for the year ended September 30, 2016 was as follows:

| | Balance 10/01/2015 | Increases | Transfers and Decreases | Balance 09/30/2016 |
|--|-----------------------|--------------|----------------------------|-----------------------|
| Governmental Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 15,575,872 | | | 15,575,872 |
| Construction in progress | 3,807,711 | 7,499,870 | (2,821,739) | 8,485,842 |
| Total capital assets, not being depreciated | 19,383,583 | 7,499,870 | (2,821,739) | 24,061,714 |
| Capital assets, being depreciated: | | | | |
| Buildings | 13,473,669 | 105,623 | | 13,579,292 |
| Improvements other than buildings | 129,693 | 46,827 | | 176,520 |
| Machinery and equipment | 5,610,101 | 578,204 | (12,230) | 6,176,075 |
| Vehicles | 4,341,096 | 1,340,292 | (214,843) | 5,466,545 |
| Furniture and fixtures | 884,665 | 13,937 | | 898,602 |
| Street and drainage improvements | 25,204,075 | 2,670,082 | | 27,874,157 |
| Total capital assets, being depreciated | 49,643,299 | 4,754,965 | (227,073) | 54,171,191 |
| Less accumulated depreciation for: | | | | |
| Buildings | (6,218,187) | (640,987) | | (6,859,174) |
| Improvements other than buildings | (52,263) | (17,091) | | (69,354) |
| Machinery and equipment | (4,414,507) | (417,078) | 8,272 | (4,823,313) |
| Vehicles | (3,057,597) | (360,670) | 154,000 | (3,264,267) |
| Furniture and fixtures | (748,830) | (51,224) | | (800,054) |
| Street and drainage improvements | (5,320,214) | (504,543) | | (5,824,757) |
| Total accumulated depreciation | (19,811,598) | (1,991,593) | 162,272 | (21,640,919) |
| Total capital assets, being depreciated, net | 29,831,701 | 2,763,372 | (64,801) | 32,530,272 |
| Governmental activities capital assets, net | 49,215,284 | 10,263,242 | (2,886,540) | 56,591,986 |
| Business-Type Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | 284,683 | | | 284,683 |
| Construction in progress | 3,551,119 | 3,131,646 | (3,334,561) | 3,348,204 |
| Total capital assets, not being depreciated | 3,835,802 | 3,131,646 | (3,334,561) | 3,632,887 |
| Capital assets, being depreciated: | | | | |
| Buildings and lift stations | 3,128,004 | | | 3,128,004 |
| Improvements other than buildings | 24,872 | | | 24,872 |
| Machinery and equipment | 1,428,937 | 336,961 | | 1,765,898 |
| Vehicles | 703,925 | | | 703,925 |
| Furniture and fixtures | 12,375 | | | 12,375 |
| Water, sewer, and drainage systems | 49,757,559 | 3,334,561 | | 53,092,120 |
| Total capital assets, being depreciated | 55,055,672 | 3,671,522 | | 58,727,194 |
| Less accumulated depreciation for: | | | | |
| Buildings and lift stations | (1,482,677) | (63,114) | | (1,545,791) |
| Improvements other than buildings | (19,079) | (1,747) | | (20,826) |
| Machinery and equipment | (1,042,419) | (98,198) | | (1,140,617) |
| Vehicles | (576,539) | (17,385) | | (593,924) |
| Furniture and fixtures | (12,375) | | | (12,375) |
| Water, sewer, and drainage systems | (9,585,434) | (828,758) | | (10,414,192) |
| Total accumulated depreciation | (12,718,523) | (1,009,202) | | (13,727,725) |
| Total capital assets, being depreciated, net | 42,337,149 | 2,662,320 | | 44,999,469 |
| Business-type activities capital assets, net | \$ 46,172,951 | \$ 5,793,966 | (\$ 3,334,561) | \$ 48,632,356 |

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

| | |
|--|----------------------------|
| General government | \$ 318,748 |
| Public safety | 670,660 |
| Highways and streets, including depreciation of infrastructure | 574,769 |
| Culture and recreation | 422,539 |
| Economic development and assistance | <u>4,877</u> |
| Total depreciation expense – governmental activities | <u><u>\$ 1,991,593</u></u> |

Business-type Activities:

| | |
|---|----------------------------|
| Water, sewer, drainage, and sanitation | <u>\$ 1,009,202</u> |
| Total depreciation expense – business-type activities | <u><u>\$ 1,009,202</u></u> |

Effective October 1, 2009, the City implemented GASB Statement 51, Accounting and Financial Reporting for Intangible Assets. This Statement requires that all intangible assets be classified as capital assets. The majority of the intangible assets are easements and right-of-ways. The procedure was already in place to capitalize any intangible asset purchased. No restatements were necessary due to the indefinite life of the intangible assets.

4. Interfund Transactions

A summary of interfund receivables and payables at September 30, 2016, is as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------------------|-----------------------|----------------------------|
| General Fund | Water and Sewer Fund | \$ 562,137 |
| | Drainage Utility Fund | 3,399 |
| | Sanitation Fund | 281,577 |
| | Capital Projects Fund | 829,325 |
| | Debt Service Fund | 56,782 |
| Water and Sewer Fund | Sanitation Fund | 137 |
| | Debt Service Fund | 2,289 |
| Drainage Utility Fund | Water and Sewer Fund | 17 |
| Nonmajor Governmental Funds | General Fund | <u>16,408</u> |
| Total | | <u><u>\$ 1,752,071</u></u> |

The General Fund receivables represent outstanding amounts for direct costs for the operations of the payable funds but are paid through the General Fund. The Water and Sewer Fund receivable of \$137 payable to the Sanitation Fund represents outstanding refund reimbursements; the receivable of \$2,289 payable to the Debt Service Fund represents a transfer owed for the closing of the 2016 Refunding Bonds. The Drainage Fund receivable represents outstanding amounts collected for charges and services between the enterprise funds.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

4. Interfund Transactions (Continued)

Transfers between funds during the year ended September 30, 2016, were as follows:

| <u>Transfer In Fund</u> | <u>Transfer Out Fund</u> | <u>Amount</u> |
|-------------------------|--------------------------|---------------------|
| General Fund | Water and Sewer Fund | \$ 750,000 |
| | Sanitation Fund | 425,000 |
| | Drainage Utility Fund | 200,000 |
| Capital Projects Fund | General Fund | 500,000 |
| | Restricted Courts | 20,120 |
| | Water and Sewer Fund | 1,400,000 |
| | Drainage Utility Fund | 250,000 |
| Water and Sewer Fund | Capital Projects Fund | 3,082,997 |
| Debt Service Fund | General Fund | 55,000 |
| | | <hr/> |
| Total | | <u>\$ 6,683,117</u> |

Transfers to the General Fund are used for indirect costs deemed necessary for operations of the transferring funds but are paid through the General Fund. Transfers to the Capital Projects Fund are used for the funding of capital assets. Transfers to the Water and Sewer and Drainage Utility Funds are used to complete enterprise fund capital projects. Transfers to the Debt Service Fund are used to assist in covering operating expenses.

5. Leases

Noncancellable Operating Leases

Rental expenditures during the fiscal year ended September 30, 2016 including equipment rentals not covered under noncancellable leases, were \$55,688.

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of COBAN equipment for the police and court departments, five copiers, two fire trucks, an ambulance, computers, computer servers, and a sewer cleaner truck. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|--------------------------------|------------------------------------|-------------------------------------|
| Assets: | | |
| Machinery and equipment | \$ 1,106,627 | \$ 5,121 |
| Vehicles | 1,148,715 | 248,673 |
| Less: Accumulated depreciation | <u>(1,304,350)</u> | <u>(253,794)</u> |
| Total | <u>\$ 950,992</u> | <u>\$ 0</u> |

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

5. Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2016 were as follows:

| <u>Year Ending September 30,</u> | <u>Governmental</u> | <u>Business-type</u> | <u>Total</u> |
|---|---------------------|----------------------|-------------------|
| 2017 | \$ 145,046 | | \$ 145,046 |
| 2018 | 144,310 | | 144,310 |
| 2019 | 143,574 | | 143,574 |
| 2020 | 142,677 | | 142,677 |
| Total minimum lease payments | 575,607 | | 575,607 |
| Less: amount representing interest | (23,790) | | (23,790) |
| Present value of minimum lease payments | <u>\$ 551,817</u> | | <u>\$ 551,817</u> |

6. Long-term Debt

At September 30, 2016, long-term debt of the City consists of the following:

Certificates of Obligation:

| | <u>Governmental</u> | <u>Business-type</u> |
|---|---------------------|----------------------|
| Combination tax and utility system revenue certificates of obligation, Series 2004, to be used for the cost of water and sewer system improvements and the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$2,000,000. The certificates bear interest at 3.98% per annum through August 15, 2024. Principal is payable in annual installments of \$125,000 to \$180,000 through August 15, 2024. | | 1,240,000 |
| Combination tax and utility system revenue certificates of obligation, Series 2005, to be used for the cost of construction of a police department building, library/community center building, senior citizens building, recreation center, and including land relating thereto, and the cost of related professional services. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$1,000,000. The certificates bear interest at 4.55% per annum through February 15, 2025. Principal is payable in annual installments of \$50,000 to \$75,000 through February 15, 2025. | 580,000 | |

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

| | <u>Governmental</u> | <u>Business-type</u> |
|---|---------------------|----------------------|
| <p>Combination tax and utility system revenue certificates of obligation, Series 2008, to be used for improvements to streets and bridges, renovation and construction of a City building, construction or improvement of a City athletic complex and City parks, and acquisition of land for any of the above named purposes. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$6,000,000. The certificates bear interest at 4.19% per annum through August 15, 2028. Principal is payable in annual installments of \$290,000 to \$475,000 through August 15, 2028.</p> | 4,600,000 | |
| <p>Combination tax and utility system revenue certificates of obligation, Series 2008, to be used for the extension and improvements to the water and sewer system and the acquisition of land for the above named purpose. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$2,000,000. The certificates bear interest at 4.19% per annum through August 15, 2028. Principal is payable in annual installments of \$95,000 to \$155,000 through August 15, 2028.</p> | | 1,445,000 |
| <p>Combination tax and utility system revenue certificates of obligation, Series 2008, to be used for the improvements to the drainage system and the acquisition of land for the above named purpose. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$1,500,000. The certificates bear interest at 4.19% per annum through August 15, 2028. Principal is payable in annual installments of \$65,000 to \$110,000 through August 15, 2028.</p> | | 1,040,000 |
| <p>Combination tax and utility system revenue certificates of obligation, Series 2009, to be used for the cost of completion of a pump station and extensions and improvements to the water and sewer system, including the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$5,000,000. The certificates bear interest at 3.5% per annum through August 15, 2018. Principal is payable in annual installments of \$230,000 to \$250,000 through August 15, 2018.</p> | | 490,000 |

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

Governmental Business-type

Combination tax and utility system revenue certificates of obligation, Series 2011, to be used for the cost of improvements to the City's water and sewer system, including extension of sewer lines, force mains, and lift stations; improvements to streets, roads, and highways, and costs of street, road and highway reconstruction; improvements, construction, and equipment for city park projects; and the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$5,000,000. The certificates bear interest at 2.0% to 4.0% per annum through August 15, 2031. Principal is payable in annual installments of \$110,000 to \$520,000 through August 15, 2031.

4,495,000

Combination tax and utility system revenue certificates of obligation, Series 2011, to be used for the cost of improvements to the City's water and sewer system, including extension of sewer lines, force mains, and lift stations; improvements to streets, roads, and highways, and costs of street, road and highway reconstruction; improvements, construction, and equipment for city park projects; and the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$3,000,000. The certificates bear interest at 2.0% to 4.0% per annum through August 15, 2031. Principal is payable in annual installments of \$110,000 to \$220,000 through August 15, 2031.

2,475,000

Combination tax and utility system revenue certificates of obligation, Series 2014, to be used for the cost of improvements to the City's water system improvements, including new construction, relocation, repairs, and maintenance of City water lines and repairs or improvements to pump station(s); sewer system improvements, including construction of new sewer lines, repairs and improvements to lift stations, and purchase and installation of new controls and data systems for the City sewer system; expansion, improvements, and reconstruction to streets and roads; expansion and renovations to City Hall; improvements, construction, and equipment for city park projects; and the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$6,000,000. The certificates bear interest at 1.50% to 4.00% per annum through August 15, 2034. Principal is payable in annual installments of \$150,000 to \$455,000 through August 15, 2034.

5,850,000

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

| | <u>Governmental</u> | <u>Business-type</u> |
|--|---------------------|----------------------|
| <p>Combination tax and utility system revenue certificates of obligation, Series 2014, to be used for the cost of improvements to the City's water system improvements, including new construction, relocation, repairs, and maintenance of City water lines and repairs or improvements to pump station(s); sewer system improvements, including construction of new sewer lines, repairs and improvements to lift stations, and purchase and installation of new controls and data systems for the City sewer system; expansion, improvements, and reconstruction to streets and roads; expansion and renovations to City Hall; improvements, construction, and equipment for city park projects; and the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$3,000,000. The certificates bear interest a 1.50% to 4.00% per annum through August 15, 2034. Principal is payable in annual installments of \$105,000 to \$215,000 through August 15, 2034.</p> | | 2,795,000 |
| <p>Total certificates of obligation</p> | 15,525,000 | 9,485,000 |
| <p>Plus: Net unamortized issuance premium (discount)</p> | 842,920 | 741,020 |
| <p>Total certificates of obligation, net</p> | 16,367,920 | 10,226,020 |
| <p>General Obligation Bonds Payable:</p> | | |
| <p>General Obligation Refunding Bonds, Series 2005, to be used to advance refund a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation Series 1997. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$2,370,000. The bonds bear interest at 4.32% per annum payable in annual installments of \$280,000 to \$305,000 through August 15, 2017.</p> | 305,000 | |
| <p>General Obligation Refunding Bonds, Series 2012, to be used to advance refund a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003 and General Obligation Refunding Bonds Series 1999 and Series 2003A. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$6,250,000. The bonds bear interest between 2.00% and 3.00% payable in annual installments of \$168,164 to \$350,538 through August 15, 2023.</p> | 2,124,545 | |

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

| | <u>Governmental</u> | <u>Business-type</u> |
|--|---------------------|----------------------|
| <p>General Obligation Refunding Bonds, Series 2012, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003 and General Obligation Refunding Bonds Series 1999 and Series 2003A. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$6,250,000. The bonds bear interest between 2.00% and 3.00% payable in annual installments of \$149,491 to \$311,614 through August 15, 2023.</p> | | 1,888,634 |
| <p>General Obligation Refunding Bonds, Series 2012, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003 and General Obligation Refunding Bonds Series 1999 and Series 2003A. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$6,250,000. The bonds bear interest between 2.00% and 3.00% payable in annual installments of \$37,346 to \$77,848 through August 15, 2023.</p> | | 471,822 |
| <p>General Refunding Bonds, Series 2013, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003 and General Obligation Refunding Bonds Series 2003A. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$1,460,000. The bonds bear interest between 1.50% and 2.00% payable in annual installments of \$30,000 to \$55,000 through August 15, 2023.</p> | 345,000 | |
| <p>General Refunding Bonds, Series 2013, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003 and General Obligation Refunding Bonds Series 2003A. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$1,460,000. The bonds bear interest between 1.50% and 2.00% payable in annual installments of \$70,000 to \$125,000 through August 15, 2023.</p> | | 800,000 |
| <p>General Refunding Bonds, Series 2015, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2006. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$8,400,000. The bonds bear interest between 3.00% and 4.00% payable in annual installments of \$530,000 to \$845,000 through August 15, 2027.</p> | 5,845,000 | |
| <p>General Refunding Bonds, Series 2015, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2006. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$8,400,000. The bonds bear interest between 3.00% and 4.00% payable in annual installments of \$230,000 to \$370,000,000 through August 15, 2027.</p> | | 2,555,000 |

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

| | <u>Governmental</u> | <u>Business-type</u> |
|--|----------------------|-----------------------------|
| <p>General Refunding Bonds, Series 2016, to be used to advance refund a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2006 and a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2009. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$6,620,000. The bonds bear interest between 2.00% and 4.00% payable in annual installments of \$110,000 to \$635,000 through August 15, 2020.</p> | <u>1,985,000</u> | <u> </u> |
| <p>General Refunding Bonds, Series 2016, to be used to advance refund a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2006 and a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2009. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$6,620,000. The bonds bear interest between 2.00% and 4.00% payable in annual installments of \$275,000 to \$405,000 through August 15, 2029.</p> | | 4,485,000 |
| Total general obligation bonds payable | <u>10,604,545</u> | <u>10,200,456</u> |
| | | |
| Capital Leases Payable: | <u>Governmental</u> | <u>Business-type</u> |
| <p>Capital lease payable to First National Bank Texas to finance the acquisition of a fire truck. The lease is secured by the equipment and is paid by the General Fund. The lease bears interest of 1.69%. The original principal balance was \$478,000. The lease is payable in annual payments of \$100,501 including interest through April 14, 2020.</p> | 385,417 | |
| <p>Capital lease payable to First National Bank Texas to finance the acquisition of computers. The lease is secured by the computers and is paid by the General Fund. The lease bears interest of 1.77%. The original principal balance was \$208,000. The lease is payable in annual payments of \$42,336 to \$44,545 through March 15, 2020.</p> | <u>166,400</u> | <u> </u> |
| Total capital leases payable | <u>551,817</u> | <u> </u> |
| Total debt before compensated absences, net | \$ 27,524,282 | \$ 20,426,476 |
| Compensated absences | 700,000 | 44,000 |
| Net pension liability | 9,531,188 | 720,902 |
| Net other postemployment benefit obligation | <u>623,227</u> | <u>70,480</u> |
| Total long-term debt | <u>\$ 38,378,697</u> | <u>\$ 21,261,858</u> |
| Reconciliation to Government-wide Statement of Net Position: | | |
| Noncurrent liabilities: | | |
| Due within one year | \$ 2,458,874 | \$ 1,350,731 |
| Due in more than one year | 26,388,635 | 19,190,225 |
| Net pension liability | 9,531,188 | 720,902 |
| Total long-term debt, net | <u>\$ 38,378,697</u> | <u>\$ 21,261,858</u> |

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

A summary of long-term debt transactions, including current portion, for the year ended September 30, 2016 is as follows:

| | Balance 10/1/2015 | Additions | Reductions | Balance 09/30/2016 | Due Within One Year |
|---|----------------------|---------------------|-----------------------|-----------------------|------------------------|
| Governmental Activities: | | | | | |
| Certificates of obligation | \$18,695,000 | | \$(3,170,000) | \$15,525,000 | \$ 670,000 |
| General obligation bonds | 9,110,077 | 1,985,000 | (490,532) | 10,604,545 | 1,120,269 |
| Premium on bonds | 823,369 | 163,604 | (105,870) | 881,103 | 0 |
| Discount on bonds | (42,384) | | 4,201 | (38,183) | 0 |
| Net governmental bonds payable | <u>28,586,062</u> | <u>2,148,604</u> | <u>(3,762,201)</u> | <u>26,972,465</u> | <u>1,790,269</u> |
| Capital leases payable | 571,308 | 208,000 | (227,491) | 551,817 | 135,585 |
| Note payable | 69,272 | | (69,272) | 0 | 0 |
| Compensated absences | 708,000 | 566,317 | (574,317) | 700,000 | 533,020 |
| Net pension liability | 7,611,507 | 1,919,681 | | 9,531,188 | 0 |
| Net other post-employ benefit oblig. | 482,567 | 140,660 | | 623,227 | 0 |
| Total governmental long-term Liabilities | <u>\$38,028,716</u> | <u>\$ 4,983,262</u> | <u>\$(4,633,281)</u> | <u>\$38,378,697</u> | <u>\$2,458,874</u> |
| Business-type Activities: | | | | | |
| Certificates of obligation | \$15,115,000 | | \$(5,630,000) | \$ 9,485,000 | \$ 775,000 |
| General obligation bonds | 5,969,924 | 4,485,000 | (254,468) | 10,200,456 | 539,731 |
| Premium on bonds | 448,555 | 379,283 | (68,071) | 759,767 | 0 |
| Discount on bonds | (20,733) | | 1,986 | (18,747) | 0 |
| Net business-type bonds payable | <u>21,512,746</u> | <u>4,864,283</u> | <u>(5,950,553)</u> | <u>20,426,476</u> | <u>1,314,731</u> |
| Compensated absences | 40,000 | 34,824 | (30,824) | 44,000 | 36,000 |
| Net pension liability | 579,955 | 140,947 | | 720,902 | 0 |
| Net other post-employ benefit oblig. | 52,964 | 17,517 | | 70,481 | 0 |
| Total business-type long-term liabilities | <u>\$22,185,665</u> | <u>\$5,057,571</u> | <u>\$(5,981,377)</u> | <u>\$21,261,859</u> | <u>\$1,350,731</u> |
| Total Governmental Liabilities | <u>\$60,214,381</u> | <u>\$10,040,833</u> | <u>\$(10,614,658)</u> | <u>\$59,640,556</u> | <u>\$3,809,605</u> |

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

The annual debt service requirements to maturity for each bond or debt type are as follows:

Certificates of Obligation

| Year Ending September 30 | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | Total |
|-----------------------------|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| 2017 | \$ 670,000 | \$ 547,829 | \$ 775,000 | \$ 335,442 | \$ 2,328,271 |
| 2018 | 720,000 | 527,169 | 805,000 | 310,062 | 2,362,231 |
| 2019 | 755,000 | 504,954 | 570,000 | 283,433 | 2,113,387 |
| 2020 | 785,000 | 480,810 | 590,000 | 264,615 | 2,120,425 |
| 2021 | 810,000 | 454,720 | 615,000 | 244,465 | 2,124,185 |
| 2022-2026 | 5,300,000 | 1,812,829 | 3,095,000 | 895,050 | 11,102,879 |
| 2027-2031 | 5,180,000 | 782,928 | 2,410,000 | 361,942 | 8,734,870 |
| 2032-2034 | <u>1,305,000</u> | <u>99,575</u> | <u>625,000</u> | <u>47,500</u> | <u>2,077,075</u> |
| Total | <u>\$ 15,525,000</u> | <u>\$ 5,210,814</u> | <u>\$ 9,485,000</u> | <u>\$ 2,742,509</u> | <u>\$32,963,323</u> |

General Obligation Bonds Payable

| Year Ending September 30 | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | Total |
|-----------------------------|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| 2017 | \$ 1,120,269 | \$ 335,287 | \$ 539,731 | \$ 323,989 | \$ 2,319,276 |
| 2018 | 975,800 | 304,053 | 729,201 | 311,247 | 2,320,301 |
| 2019 | 992,905 | 281,529 | 1,017,095 | 293,321 | 2,584,850 |
| 2020 | 1,014,748 | 258,592 | 1,040,253 | 269,558 | 2,583,151 |
| 2021 | 1,069,222 | 228,700 | 1,070,779 | 239,550 | 2,608,251 |
| 2022-2026 | 4,586,601 | 646,215 | 4,273,397 | 730,435 | 10,236,648 |
| 2027-2029 | <u>845,000</u> | <u>33,800</u> | <u>1,530,000</u> | <u>109,000</u> | <u>2,517,800</u> |
| Total | <u>\$ 10,604,545</u> | <u>\$ 2,088,176</u> | <u>\$ 10,200,456</u> | <u>\$ 2,277,100</u> | <u>\$25,170,277</u> |

Capital Leases Payable

| Year Ending September 30 | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | Total |
|-----------------------------|--------------------------------|------------------|---------------------------------|-----------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| 2017 | \$ 135,585 | \$ 9,462 | | | \$ 145,047 |
| 2018 | 137,173 | 7,137 | | | 144,310 |
| 2019 | 138,788 | 4,785 | | | 143,573 |
| 2020 | <u>140,271</u> | <u>2,406</u> | | | <u>142,677</u> |
| Total | <u>\$ 551,817</u> | <u>\$ 23,790</u> | | | <u>\$ 575,607</u> |

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

Advance Refunding – 2016

On March 24, 2016, the City issued \$6,470,000 in general obligation refunding bonds from the debt service fund and the water and sewer fund with interest rates of 2.00% to 4.00% to advance refund \$6,620,000 of outstanding bonds. The \$6,620,000 refunded \$1,995,000 of 2006 Series Tax and Utility system revenue certificates of obligation with interest rates of 4.00% to 4.25% which was governmental activity debt and \$4,625,000 in the water and sewer fund which included \$875,000 of Series 2006 Tax and Utility system revenue certificates of obligation with interest rates from 4.00% to 4.25% and \$3,750,000 of Series 2009 Tax and Utility system revenue certificates of obligation with interest rates from 3.50% to 4.50%. The net proceeds of \$6,987,863 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of \$6,620,000 of refunded debt. As a result, the refunded certificates of obligation and general obligation refunding bonds are considered to be defeased and the liability has been removed from the long-term debt of the water and sewer fund and government-wide statement of activities.

Original maturity dates for the defeased debt remaining are August 15, 2016 to August 15, 2020. All maturities were redeemed prior to original maturity on August 15, 2016.

The reacquisition price exceeded the net carrying amount of the old debt by \$113,561 for governmental activities and \$257,948 for water and sewer. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the life of the refunded debt. This difference, reported in the accompanying financial statements as a deduction from the general obligation bonds payable, is being charged to operations through the year 2020 for the governmental and 2029 for the water and sewer fund using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2016 is \$112,412 for governmental activities and \$254,554 for the water and sewer fund.

Advance Refunding – 2015

On March 11, 2015, the City issued \$8,400,000 in general obligation refunding bonds from the debt service fund and the water and sewer fund with interest rates of 3.00% to 4.00% to advance refund \$8,870,000 of outstanding bonds. The \$8,870,000 refunded \$6,175,000 of 2006 Series Tax and Utility system revenue certificates of obligation with interest rates of 4.375% to 4.50% which was governmental activity debt and \$2,695,000 in the water and sewer fund of Series 2006 general obligation refunding bonds with an interest rate of 4.375% to 4.50%. The net proceeds of \$9,409,776 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of \$8,870,000 of refunded debt. As a result, the refunded certificates of obligation and general obligation refunding bonds are considered to be defeased and the liability has been removed from the long-term debt of the water and sewer fund and government-wide statement of activities.

Original maturity dates for the defeased debt remaining are August 15, 2015 to August 15, 2020. All maturities were redeemed prior to original maturity on August 15, 2016.

The reacquisition price exceeded the net carrying amount of the old debt by \$457,001 for governmental activities and \$175,770 for water and sewer. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the life of the refunded debt. This difference, reported in the accompanying financial statements as a deduction from general obligation bonds payable, is being charged to operations through the year 2027 using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2016 is \$381,684 for governmental activities and \$146,810 for the water and sewer fund.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

Advance Refunding – 2013

On June 13, 2013, the City issued \$1,460,000 in general obligation refunding bonds from the debt service fund and the water and sewer fund with interest rates of 1.50% to 2.00% to advance refund \$1,415,000 of outstanding bonds. The \$1,415,000 refunded \$425,000 of 2003 Series Tax and Utility system revenue certificates of obligation with interest rates of 4.20% which was governmental activity debt and \$990,000 in the water and sewer fund which included \$85,000 of Series 2003 general obligation refunding bonds with an interest rate of 4.00%; \$905,000 of Series 2003 Tax and Utility system revenue certificates of obligation with interest rates from 4.20%. The net proceeds of \$1,449,717 (after payment of \$37,574 in issuance costs and \$3,603 net cash received by the City) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of \$1,415,000 of refunded debt. As a result, the refunded certificates of obligation and general obligation refunding bonds are considered to be defeased and the liability has been removed from the long-term debt of the water and sewer fund and government-wide statement of activities.

Original maturity dates for the defeased debt remaining are August 15, 2004 to August 15, 2023. All maturities were redeemed prior to original maturity on August 15, 2014. There is no defeased debt remaining outstanding at September 30, 2016.

The reacquisition price exceeded the net carrying amount of the old debt by \$28,630 for governmental activities and \$41,634 for water and sewer. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the life of the refunded debt. This difference, reported in the accompanying financial statements as a deduction from general obligation bonds payable, is being charged to operations through the year 2023 using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2016 is \$15,024 for governmental activities and \$21,708 for the water and sewer fund.

Advance Refunding – 2012

On March 6, 2012, the City issued \$6,250,000 in general obligation refunding bonds from the debt service fund and the water and sewer fund with interest rates of 0.35% to 3.00% to advance refund \$6,230,000 of outstanding bonds. The \$6,230,000 refunded \$3,430,000 of 2003 Series Tax and Utility system revenue certificates of obligation with interest rates of 4.20% to 5.00% which was governmental activity debt and \$2,800,000 in the water and sewer fund which included \$575,000 of Series 1999 general obligation refunding bonds with an interest rate of 4.45%; \$1,895,000 of Series 2003 Tax and Utility system revenue certificates of obligation with interest rates from 4.20% to 5.00%; and \$330,000 of Series 2003A general obligation refunding bonds with interest rates from 3.875% to 5.00%. The net proceeds of \$6,629,811 (after payment of \$76,000 in issuance costs and \$19,016 net cash received by the City) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of \$6,230,000 of refunded debt. As a result, the refunded certificates of obligation and general obligation refunding bonds are considered to be defeased and the liability has been removed from the long-term debt of the water and sewer fund and government-wide statement of activities.

Original maturity dates for the defeased debt remaining are August 15, 2004 to August 15, 2023. All maturities were redeemed prior to original maturity on August 15, 2014. There is no defeased debt remaining outstanding at September 30, 2016.

The reacquisition price exceeded the net carrying amount of the old debt by \$258,663 for governmental activities and \$225,545 for water and sewer. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the life of the refunded debt. This difference, reported in the accompanying financial statements as a deduction from general obligation bonds payable, is

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

being charged to operations through the year 2023 using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2016 is \$112,490 for governmental and \$98,087 for water and sewer fund.

Advance Refunding – 2005

On May 3, 2005, the City issued \$2,370,000 in general obligation refunding bonds from the debt service fund with an interest rate of 4.32% to advance refund \$2,225,000 of outstanding 1997 Series certificates of obligation with interest rates of 5.3% to 5.5%. The net proceeds of \$2,334,986 (after payment of \$31,375 in underwriting fees, insurance, and other issuance costs and \$3,639 net cash received by the City) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on \$2,225,000 of refunded debt. As a result, the refunded certificates of obligation are considered to be defeased and the liability has been removed from the government-wide statement of activities.

Original maturity dates for the defeased debt remaining are August 15, 2009 through August 15, 2017. All maturities were redeemed prior to original maturity on August 15, 2007 for a total of \$2,225,000. There is no defeased debt remaining outstanding at September 30, 2016.

The reacquisition price exceeded the net carrying amount of the old debt by \$109,986 for governmental activities. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the life of the refunded debt. This difference, reported in the accompanying financial statements as a deduction from general obligation bonds payable, is being charged to operations through the year 2017 using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2016, is \$1,496.

Compliance With Debt-Service Requirements

- A. Combination Tax and Utility System Revenue Certificates of Obligation, Series 2004; Combination Tax and Utility System Revenue Certificates of Obligation, Series 2005; Combination Tax and Utility System Revenue Certificates of Obligation, Series 2006; Combination Tax and Utility System Revenue Certificates of Obligation, Series 2008; Combination Tax and Utility System Revenue Certificates of Obligation, Series 2009; Combination Tax and Utility System Revenue Certificates of Obligation, Series 2011; and Combination Tax and Utility System Revenue Certificates of Obligation, Series 2014

The ordinances require a separate interest and sinking fund for the payment of interest and principal of the certificates. The City is required to compute and ascertain a rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to pay the interest on the bonds as interest becomes due and to provide and maintain an interest and sinking fund adequate to pay the principal as such principal matures (but never less than 2% of the original amount of the bonds as a sinking fund each year).

If surplus net revenues of the City's combined waterworks and sewer system are actually on deposit in the interest and sinking fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of taxes which otherwise would have been required to be levied may be reduced to the extent and by the amount of the surplus net revenues then on deposit in the interest and sinking fund or budgeted for deposit therein.

Any proceeds of the certificates not spent on the project shall promptly be deposited to the credit of the Interest and Sinking Fund.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

- B. General Obligation Refunding Bonds, Series 2005; General Obligation Refunding Bonds, Series 2012; and General Obligation Refunding Bonds, Series 2013; General Obligation Refunding Bonds, Series 2015; General Obligation Refunding Bonds, Series, 2016.

The ordinance requires a separate interest and sinking fund for the payment of interest and principal of the certificates. The City is required to compute and ascertain a rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to pay the interest on the bonds as interest becomes due and to provide and maintain an interest and sinking fund adequate to pay the principal as such principal matures (but never less than 2% of the original amount of the bonds as a sinking fund each year).

7. Ad Valorem Taxes

Property taxes are assessed and collected by the Tax Appraisal District of Bell County. The tax calendar is as follows:

| | |
|------------------|--|
| Levy date: | October 1 of the tax year |
| Due date: | January 31 of year following the tax year, without penalty |
| Collection date: | Beginning in October of the tax year |
| Lien date: | January 1 of the tax year |

The effective tax rate during fiscal year ended September 30, 2016, was \$0.6770 per \$100 valuation.

8. Interest Expense

Interest expense paid during the year ended September 30, 2016, is as follows:

| | |
|-----------------------|--------------|
| General Fund | \$ 10,997 |
| Debt Service Fund | 959,115 |
| Proprietary Fund Type | |
| Water and Sewer Fund | 645,771 |
| Drainage | 61,212 |
| Total interest paid | \$ 1,677,095 |

Interest accrued in the Water and Sewer Fund at September 30, 2016, was \$76,238. Capitalized interest incurred during the construction phase of capital assets of \$170,044 was netted with interest earned on the invested proceeds over the same period of \$23,709, resulting in a net capitalized amount of \$146,335 for the year ended September 30, 2016. Amortization of deferred amount on advance refunding of certificates of obligation in the Water and Sewer Fund was \$52,344 for the year ended September 30, 2016. Amortization of bond discount in the Water and Sewer Fund was \$1,770 for the year ended September 30, 2016. Amortization of bond premium of refunding bonds in the Water and Sewer Fund was \$(62,424) for the year ended September 30, 2016.

Interest accrued in the Drainage Fund at September 30, 2016 was \$7,296. Amortization of bond premium of refunding bonds in the Drainage Fund was \$(5,647) for the year ended September 30, 2016. There was no capitalization of interest in the Drainage Fund for the year ended September 30, 2016.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

8. Interest Expense (Continued)

Interest accrued in the governmental activities on the government-wide statement of net position at September 30, 2016, was \$111,761, and amortization of bond discount was \$4,201. Amortization of deferred amount on advance refunding costs was \$84,709.

9. Water Service Contracts

The City has an agreement to purchase water service from Bell County Water Control and Improvement District No. 1 (WCID No. 1), Killeen, Texas, until December 31, 2041, when WCID No. 1 bonds are paid. WCID No. 1 agrees to deliver and meter water required by the City. WCID No. 1 bills for water purchased, at rates that are reviewed and adjusted periodically. The rates are determined by amounts necessary to retire WCID No. 1 debt and cover maintenance and operating expenses. During the fiscal year ended September 30, 2016, the City purchased 1,489,064,000 gallons of water from WCID No. 1 for a total charge of \$1,708,426. The City also paid \$144,649 for an option to purchase future water from the Brazos River Authority. This amount is included in current year purchased water expenditures. In addition, the City has two contracts with the Brazos River Authority to pay the Authority annually for the water made available to the City at a price equal to the product of multiplying the system rate times 3,235 acre-feet and 300 acre-feet of water per fiscal year agreed to be made available to the City by Authority from the system regardless of whether, or how much of, said water is diverted and used by the City. The City paid the Brazos River Authority \$256,429 for water which can be pumped directly into the South Water Plant.

10. Sanitation Service Contract

On August 1, 2008, the City amended its sanitation contract with Waste Management of Texas, Inc. on the collection and distribution of fees on commercial customers within the city, size and collection of residential brush pickup, and fuel surcharges charged to commercial customers. Waste Management of Texas, Inc. now bills and collects fees from commercial customers and remits a five percent franchise fee to the City.

V. OTHER INFORMATION

1. Risk Management

The City is exposed to various risks of loss related to torts: theft; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the Texas Municipal League Intergovernmental Risk Pool (TML), a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to TML for its general insurance coverage, real and personal property coverage, liability coverage, and workers compensation coverage. The agreement for formation for TML provides that TML will be self-sustaining through member premiums.

2. Employee Benefit Plans

Texas Municipal Retirement System Plan

Plan Description

The City of Harker Heights participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (Continued)

management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the city are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Upon retirement, benefits depend upon the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At inception, the City granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|-----|
| Inactive employees or beneficiaries currently receiving benefits | 59 |
| Inactive employees entitled to but not yet receiving benefits | 129 |
| Active employees | 204 |

Contributions

The contribution rate for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Harker Heights were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Harker Heights were 15.09% and 14.78% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$1,651,050, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (Continued)

Actuarial assumptions

The total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Inflation | 2.5% per year |
| Overall payroll growth | 3.0% per year |
| Investment Rate of Return | 6.75%, net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumption were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015 the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|-----------------------|--------------------------|--|
| Domestic Equity | 17.5% | 4.55% |
| International Equity | 17.5% | 6.10% |
| Core Fixed Income | 10.0% | 1.00% |
| Non-Core Fixed Income | 20.0% | 3.65% |
| Real Return | 10.0% | 4.03% |
| Real Estate | 10.0% | 5.00% |
| Absolute Return | 10.0% | 4.00% |
| Private Equity | 5.0% | 8.00% |
| Total | 100.0% | |

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

VI. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (Continued)

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

| Changes in the Net Pension Liability | Increase (Decrease) | | |
|---|-----------------------------|---------------------------------|-------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| Balance at 12/31/2014 | \$ 38,760,734 | \$ 30,569,272 | \$ 8,191,462 |
| Changes for the year: | | | |
| Service cost | 1,805,969 | | 1,805,969 |
| Interest | 2,746,611 | | 2,746,611 |
| Change in benefit terms | | | |
| Difference between expected and actual experience | (196,637) | | (196,637) |
| Changes of assumptions | 97,704 | | 97,704 |
| Contributions – employer | | 1,618,783 | (1,618,783) |
| Contributions – employee | | 757,958 | (757,958) |
| Net investment income | | 45,109 | (45,109) |
| Benefit payments, including refunds of employee contributions | (852,850) | (852,850) | |
| Administrative expense | | (27,475) | 27,475 |
| Other changes | | (1,357) | 1,357 |
| Net changes | \$ 3,600,797 | \$ 1,540,169 | \$ 2,060,628 |
| Balance at 12/31/2015 | \$ 42,361,531 | \$ 32,109,441 | \$ 10,252,090 |

Sensitivity of the net pension liability to changes in the discount rate.

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

| | 1% Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|------------------------------|--------------------------------------|-----------------------|--------------------------------------|
| City's net pension liability | \$17,370,967 | \$10,252,090 | \$4,530,594 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended the September 30, 2016, the recognized pension expense of \$2,141,470.

At September 30, 2016, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------|-------------------------------|
| Differences between expected and actual economic experience | | \$ (182,736) |
| Changes in actuarial assumptions | \$ 76,872 | |
| Difference between projected and actual investment earnings | 1,886,570 | |
| Contributions subsequent to the measurement date | 1,264,492 | |
| Total | \$ 3,227,934 | \$ (182,736) |

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (Continued)

\$1,264,492 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | |
|-------------------------|---------|
| 2016 | 457,865 |
| 2017 | 457,865 |
| 2018 | 460,581 |
| 2019 | 404,395 |
| 2020 | 0 |
| Thereafter | 0 |

Additional schedule of funding progress for TMRS can be found in the required supplementary information on page 69-70.

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provide a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during the employees' entire careers.

There is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

Schedule of Contributions Rates:
 (Retiree-only portion of the rate)

| Calendar Year | Annual Required Contribution Rate | Actual Contribution Made | Percentage of ARC Contributed |
|---------------|--------------------------------------|-----------------------------|----------------------------------|
| 2010 | 0.02% | 0.02% | 100.0% |
| 2011 | 0.02% | 0.02% | 100.0% |
| 2012 | 0.02% | 0.02% | 100.0% |
| 2013 | 0.01% | 0.01% | 100.0% |
| 2014 | 0.01% | 0.01% | 100.0% |
| 2015 | 0.01% | 0.01% | 100.0% |
| 2016 | 0.02% | 0.02% | 100.0% |

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (Continued)

Deferred Compensation Plan

On July 29, 1986, the City entered into an agreement with the United States Conference of Mayors to participate in the administration of a deferred compensation plan derived from Section 457 of the Internal Revenue Code. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Investments, other than annuity contracts, are held in a custodial account, the assets of which are held by Bank One Trust Company, N.A. as custodian for the exclusive benefit of participants and the beneficiaries thereof of the Plan. The City's USCM Deferred Compensation Program is administered by Nationwide Retirement Solutions. Except as may otherwise be permitted or required by law, no assets or income of the Plan shall be used for, or diverted to, purposes other than for the expenses of administration of the Plan. The assets amounted to \$1,611,012 at September 30, 2016.

It is the opinion of the City's management that the City has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor. The City provides limited administrative duties. In accordance with GASB Statement No. 32, the Plan is not included in the City's financial statements.

Plan Description

In addition to the pension benefits described in Note V.2. as required by state law and defined by City Policy, the City makes available health care benefits to all employees who retire from the City through a single-employer defined benefit healthcare plan. This healthcare plan provides lifetime insurance or until 65 if eligible for Medicare to eligible retirees, their spouses and dependents through the City's group health insurance plan, which covers both active and retired members. Benefit provisions are established by management.

During the year ended September 30, 2010, the City changed its policy and began allowing new retirees to remain on the City's health plan at the retiree's expense. As of the valuation date, there are five retirees on the City's health plan. Future retirees are eligible to remain in the health plan at the total blended contribution rate for active and retiree participants.

Funding policy

Retirees will contribute to the health plan 100% of the total blended premium for active and retired participants. Retiree contributions rates for fiscal year 2016 were \$5,498 to \$16,623 per year depending on coverage levels selected.

3. Postemployment Benefits Other than Pensions

The following table shows the components of the City's annual other postemployment benefit (OPEB) cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

Net OPEB Obligation:

| | |
|--|-------------------|
| Annual required contribution | \$ 173,212 |
| Interest on net OPEB obligation | 18,688 |
| Adjustment to annual required contribution | <u>(32,125)</u> |
| Annual OPEB cost | 159,775 |
| Contributions made | <u>(0)</u> |
| Increase in net OPEB obligation | 159,775 |
| Net OPEB obligation, beginning of year | <u>533,933</u> |
| Net OPEB obligation, end of the year | <u>\$ 693,708</u> |

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

V. OTHER INFORMATION (CONTINUED)

3. Postemployment Benefits Other than Pensions (Continued)

Trend information is as follows:

| Fiscal Year Ending | Annual OPEB Cost (AOC) | Employer Contributions | Percentage of AOC Contributed | Net OPEB Obligation |
|--------------------------|------------------------------|---------------------------|-------------------------------------|---------------------------|
| 2010 | \$88,792 | 0 | 0% | \$ 88,792 |
| 2011 | 87,866 | 0 | 0% | 176,658 |
| 2012 | 88,123 | 0 | 0% | 264,781 |
| 2013 | 0 | 0 | 0% | 264,781 |
| 2014 | 178,848 | 0 | 0% | 443,629 |
| 2015 | 90,304 | 0 | 0% | 533,933 |
| 2016 | 159,775 | 0 | 0% | 693,708 |

Additional schedule of funding progress for Other Postemployment Benefit can be found in the required supplementary information on page 71.

The schedule of actuarial liabilities and funding progress follows:

| | | |
|---|-----------------|---------------|
| Actuarial Valuation Date | | 10/1/15 |
| Actuarial Value of Assets | (A) | \$ 0 |
| Actuarial Accrued Liability | (B) | \$ 1,240,122 |
| Percentage Funded | (C) = (A) / (B) | 0% |
| Unfunded (Overfunded) | | |
| Actuarial Accrued Liability (UAAL) | (D) = (B) – (A) | \$ 1,240,122 |
| Annual Covered Payroll | (E) | \$ 11,045,660 |
| UAAL as a Percentage of Covered Payroll | (D) / (E) | 11.23% |

The actuarial accrued liability of \$1,240,122 includes \$1,240,122 for active employees and \$0 for retirees. There are no current retirees on the health care plan.

Actuarial Valuations

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far in the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2015 actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions include a 3.5 percent investment rate of return, which is a blended rate of expected long-term investment returns on plan assets and the City's own investments calculated based on the funded level of the plan at the valuation date and an annual healthcare cost trend rate of ten percent initially, reduced by decrements to an ultimate rate of five percent after ten years. The City's unfunded actuarial accrued liability is being amortized as a level dollar of active member payroll over a 24 year closed period. The actuarial assumptions presented here are as follows in the chart form:

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016

V. OTHER INFORMATION (CONTINUED)

3. Postemployment Benefits Other than Pensions (Continued)

The actuarial valuation information is as follows:

| | |
|-----------------------------------|---|
| Actuarial valuation date | 10/1/15 |
| Actuarial cost method | Unprojected Unit Credit |
| Amortization method | Level Dollar of Payroll |
| Amortization period | 24 |
| Assumed investment rate of return | 3.5% |
| Healthcare cost trend rate | 10% initially, reduced by decrements to an ultimate rate of 5% after 10 years |

4. Grants

During the year ended September 30, 2011, the City was approved by the State of Texas Department of Transportation pass through funding in the amount of \$1,700,000 to construct an eastbound to westbound turn around bridge at US 190. The City will be reimbursed the \$1,700,000 within a 10 – 20 year time frame based on traffic counts. The City recognized \$170,000 of pass through funding proceeds with \$1,190,000 remaining as of September 30, 2016.

The police received \$3,752 during the year ended September 30, 2015 from a Law Enforcement Officer Standards and Education grant for police. As of September 30, 2016, \$2,449 was expended. The City received \$3,605 and \$910 during the year ended September 30, 2016 for police and fire respectively. Of these amounts, \$494 was expended for police and \$910 was expended for fire.

During the year ended September 30, 2014, the City was approved by the U.S. Department of Justice for a grant in the amount of \$7,433 for police vests. As of September 30, 2016, the City recognized \$6,276 of grant proceeds and expenditures.

During the year ended September 30, 2015, the City was approved by the U.S. Department of Justice for a grant in the amount of \$7,069 for police vests. As of September 30, 2016, the City recognized no grant proceeds or expenditures.

During the year ended September 30, 2015, the City was approved a Texas Department of Agriculture Community Development Block grant in the amount of \$275,000 for sewer line improvements. As of September 30, 2016, the City recognized \$259,215 in grant proceeds or expenditures.

During the year ended September 30, 2016, the City was approved by the Texas State Library and Archives Commission for a grant in the amount of \$1,015 for the partial reimbursement of postage spent on Inter Library Loan materials. As of September 30, 2016, the City recognized \$1,015 grant proceeds and expenditures.

During the year ended September 30, 2016, the City was approved by the Texas Commission on the Arts for a grant in the amount of \$472 for the Arts Respond Performance Support grant which provides professional artist fees for hiring an artist to do a performance. As of September 30, 2016, The City recognized \$472 grant proceeds and expenditures.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

V. OTHER INFORMATION (CONTINUED)

5. Commitments

The City has an agreement with WCID No. 1 for the expansion of treatment facilities for the City and another water district. The overall costs for the expansion are being funded by a bond issued by WCID No. 1. The associated debt payments are allocated to the City and the other water district by the additional increase of treated water to each. These debt payments are included in the monthly billing received from WCID No. 1.

The City has two commitments to The Brazos River Authority (Authority) to pay the Authority annually for the water made available to the City hereunder at a price equal to the product of multiplying the system rate times 3,235 acre-feet and 300 acre-feet of water per fiscal year, regardless of whether, or how much of, said water is diverted and used by the City. Current rate is \$72.00 per acre-foot of water.

The City has a commitment to Central Texas 4C, Inc. to allow them the exclusive use, occupancy and right to operate a Head Start Center for the Harker Heights area on the designated City land rent-free for a period of ten years starting August 24, 2015.

On August 1, 2006, the City has entered into a 20-year joint-use operating lease agreement with Killeen Independent School District on 5 acres of land adjacent to Skipcha Estates Elementary School for the development of a public park. The City has agreed to construct and maintain the buildings and playground equipment over the lease period that expires on July 31, 2026.

The City has three contracts with engineering firms for street reconstruction and improvements in the amount of \$348,600 with \$1,200 remaining at September 30, 2016; \$117,000 with \$44,823 remaining at September 30, 2016; and \$34,800 with \$7,063 remaining at September 30, 2016.

The City has a contract with a construction firm for the reconstruction of Amy Lane in the amount of \$2,418,644 with \$218,444 remaining at September 30, 2016. A contract has been signed with a construction firm for the reconstruction of Comanche Gap Road in the amount of \$2,656,210 with \$56,353 remaining at September 30, 2016. Also, a contract has been signed for the reconstruction of Coral Drive and Cottonmouth Drive in the amount of \$347,147 and \$330,514 remaining at September 30, 2016.

The City has two contracts with engineering firms for sidewalk construction and improvements in the amount of \$56,510 with \$23,621 remaining at September 30, 2016 and \$24,400 with \$17,900 remaining at September 30, 2016.

The City has a contract with a construction firm for construction and improvements to sidewalks in the amount of \$119,318 with \$119,318 remaining at September 30, 2016.

A contract has been signed with an Architect firm for the renovations to the City Hall building and the Recreation Center building in the amount of \$199,407 with \$2,103 remaining at September 30, 2016 and \$116,080 with \$16,574 remaining at September 30, 2016 respectively.

The City has a contract with a construction manager at risk for the construction and renovation of the City Hall and Recreation Center buildings in the amount of \$1,603,790 with \$211,141 remaining at September 30, 2016 and \$616,699 with \$73,137 remaining at September 30, 2016 respectively.

A contract has been signed with an Architect firm for the renovation of the Central Fire Station building in the amount of \$251,410 with \$212,460 remaining at September 30, 2016.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

V. OTHER INFORMATION (CONTINUED)

5. Commitments (Continued)

The City has four signed contracts with a construction firm in the amount \$538,560 with \$33,264 remaining at September 30, 2016 for the Cedar Knob pump station improvements, Verna Lee pump station improvements, the Cedar Oaks Tank mixing project, and painting the exterior of the Verna Lee pump. Also, the City has two signed contracts with construction firms in the amount of \$1,381,535 with \$357,480 remaining at September 30, 2016 for the utility relocation with the right-of-way on FM2410; and \$222,746 with \$147,372 remaining at September 30, 2016 for a water main oversizing project.

The City has two contracts with engineering firms for upgrades to the SCADA system in the amount of \$26,000 with \$875 remaining at September 30, 2016 and sewer line replacement project in the amount of \$113,062 with \$2,236 remaining at September 30, 2016.

Two contracts have been signed with construction firms for upgrades to the SCADA system in the amount of \$268,398 with \$112,712 remaining at September 30, 2016 and sewer line replacement project in the amount of \$611,983 with \$129,624 remaining at September 30, 2016.

6. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

7. Related Party Transactions

The City hired an upholstery center to repair upholstery on the City's vehicles and furniture. This upholstery center is owned and operated by a spouse of one of the City's department heads. The total amount billed to the City for this service during the year was \$1,675 of which none was outstanding at September 30, 2016.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARKER HEIGHTS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN YEARS (will ultimately be displayed)
SEPTEMBER 30, 2016
(UNAUDITED)

| | 2015 | 2014 |
|---|----------------------|----------------------|
| Total pension liability | | |
| Service cost | \$ 1,805,969 | \$ 1,607,778 |
| Interest (on the Total Pension Liability) | 2,746,611 | 2,509,002 |
| Changes of benefit terms | 0 | 0 |
| Difference between expected and actual experience | (196,637) | (48,522) |
| Change of assumptions | 97,704 | 0 |
| Benefit payments, including refunds of employee contributions | (852,850) | (693,040) |
| Net Change in Total Pension Liability | 3,600,797 | 3,375,218 |
| Total Pension Liability – Beginning | 38,760,734 | 35,385,516 |
| Total Pension Liability – Ending (a) | \$ 42,361,531 | \$ 38,760,734 |
| | | |
| Plan Fiduciary Net Position | | |
| Contributions – Employer | \$ 1,618,783 | \$ 1,483,963 |
| Contributions – Employee | 757,958 | 728,453 |
| Net Investment Income | 45,109 | 1,573,307 |
| Benefit payments, including refunds of employee contributions | (852,850) | (693,040) |
| Administrative expense | (27,475) | (16,421) |
| Other | (1,357) | (1,350) |
| Net Change in Plan Fiduciary Net Position | 1,540,169 | 3,074,912 |
| Plan Fiduciary Net Position – Beginning | 30,569,272 | 27,494,360 |
| Plan Fiduciary Net Position – Ending (b) | \$ 32,109,441 | \$ 30,569,272 |
| Net Pension Liability – Ending (a) – (b) | \$ 10,252,090 | \$ 8,191,462 |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 75.80% | 78.87% |
| Covered Employee Payroll | \$ 10,827,153 | \$ 10,406,469 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 94.69% | 78.72% |

CITY OF HARKER HEIGHTS
SCHEDULE OF CONTRIBUTIONS
LAST TEN YEARS (will ultimately be displayed)
SEPTEMBER 30, 2016
(UNAUDITED)

| | Fiscal Year 2016 | Fiscal Year 2015 |
|---|---------------------|---------------------|
| Actuarially determined contribution | \$1,651,050 | \$1,639,697 |
| Contribution in relation of the actuarially determined contribution | 1,686,650 | 1,589,154 |
| Contribution deficiency (excess) | \$(35,600) | \$50,543 |
| Covered employee payroll | \$10,827,153 | \$11,099,798 |
| Contributions as a percentage of covered employee payroll | 15.58% | 14.32% |

Notes to Schedule:

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective January 13 months later.

Methods and Assumption Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Closed |
| Remaining Amortization Period | 30 years |
| Asset Valuation Method | 10 Year smoothed market; 15% soft corridor |
| Inflation | 2.5% |
| Salary Increases | 3.50% to 10.50% including inflation |
| Investment Rate of Return | 6.75% |
| Retirement Age | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014 |
| Mortality | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB |

Other Information:

Notes There were no benefit changes during the year

CITY OF HARKER HEIGHTS
OTHER POSTEMPLOYMENT BENEFITS ANALYSIS OF FUNDING PROGRESS
 LAST TEN YEARS (will ultimately be displayed)
 SEPTEMBER 30, 2016
 (UNAUDITED)

The schedule of funding progress for Other Postemployment Benefits is as follows:

| Actuarial Valuation Date | (1) Actuarial Value of Assets | (2) Actuarial Accrued Liability (AAL) | (3) Unfunded AAL (UAAL) (2) – (1) |
|--------------------------------|--|---|--|
| 10/01/09 | 0 | 1,554,674 | (1,554,674) |
| 10/01/10 | 0 | 543,474 | (543,474) |
| 10/01/11 | 0 | 590,256 | (590,256) |
| 10/01/12 | 0 | 590,256 | (590,256) |
| 10/01/13 | 0 | 627,795 | (627,795) |
| 10/01/14 | 0 | 627,795 | (627,795) |
| 10/01/15 | 0 | 1,240,122 | (1,240,122) |

| Actuarial Valuation Date | (4) Funded Obligation (1) / (2) | (5) Annual Covered Payroll | (6) UAAL as a Percentage of Covered Payroll ((2) – (1) / (5)) |
|--------------------------------|--|-------------------------------------|--|
| 10/01/09 | 0% | 8,745,958 | 17.78% |
| 10/01/10 | 0% | 9,108,379 | 5.97% |
| 10/01/11 | 0% | 9,410,363 | 6.27% |
| 10/01/12 | 0% | 9,912,468 | 5.95% |
| 10/01/13 | 0% | 10,193,960 | 6.16% |
| 10/01/14 | 0% | 10,996,982 | 5.71% |
| 10/01/15 | 0% | 11,045,660 | 11.23% |

The actuarial information presented is determined by an actuarial valuation and is the amount that results from applying various assumptions with regard to future employment, mortality, and the healthcare cost trend.

Note: The most recent actuarial valuation was October 1, 2015.

COMBINING FINANCIAL STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Hotel/Motel Fund – This fund is used to account for the accumulation of resources of the hotel/motel occupancy tax. These monies are to be spent in accordance with the requirements of state law.

Restricted Court Fund – This fund is used to account for fees collected to maintain security for municipal court buildings, state mandated court costs for time payments restricted for judicial efficiency expenditures, and costs restricted for municipal court technology expenditures.

Memorial Fund – This fund is used to account for contributions received to give scholarships to individuals for training as police officers.

CITY OF HARKER HEIGHTS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

| | Special Revenue | | |
|---|---------------------|-----------------------------|--|
| | Hotel/Motel Fund | Restricted Court Fund | Total Nonmajor Governmental Funds |
| ASSETS | | | |
| Cash | \$ 16,555 | \$ 82,225 | \$ 98,780 |
| Investments | 56,759 | 73,088 | 129,847 |
| Receivables (net of allowance for uncollectibles): | | | |
| Accounts | 11,429 | | 11,429 |
| Due from other funds | | 16,409 | 16,409 |
| Total Assets | \$ 84,743 | \$ 171,722 | \$ 256,465 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Due to other funds | | | |
| Total Liabilities | | | |
| Fund Balances: | | | |
| Nonspendable | | | |
| Restricted for: | | | |
| Economic development | 84,743 | | 84,743 |
| Public safety | | 171,722 | 171,722 |
| Committed | | | |
| Assigned | | | |
| Unassigned | | | |
| Total Fund Balances | 84,743 | 171,722 | 256,465 |
| Total Liabilities and Fund Balances | \$ 84,743 | \$ 171,722 | \$ 256,465 |

CITY OF HARKER HEIGHTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Special Revenue | | |
|--|---------------------|-----------------------------|--|
| | Hotel/Motel Fund | Restricted Court Fund | Total Nonmajor Governmental Funds |
| REVENUES | | | |
| Taxes - other | \$ 75,361 | | \$ 75,361 |
| Fines | | 79,511 | 79,511 |
| Investment earnings | 300 | 472 | 772 |
| Total Revenues | 75,661 | 79,983 | 155,644 |
| EXPENDITURES | | | |
| Current: | | | |
| General government | | 421 | 421 |
| Public safety: | | | |
| Courts | | 55,000 | 55,000 |
| Economic development and assistance | 97,317 | | 97,317 |
| Total Expenditures | 97,317 | 55,421 | 152,738 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (21,656) | 24,562 | 2,906 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfer out | | (20,120) | (20,120) |
| Total Other Financing Sources (Uses) | | (20,120) | (20,120) |
| Net Change in Fund Balances | (21,656) | 4,442 | (17,214) |
| Fund Balances - Beginning | 106,399 | 167,280 | 273,679 |
| Fund Balances - Ending | \$ 84,743 | \$ 171,722 | \$ 256,465 |



**SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL**

DEBT SERVICE AND SPECIAL REVENUE FUNDS

CITY OF HARKER HEIGHTS

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget Positive (Negative) |
|--|------------------|--------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Property taxes | \$ 2,545,100 | \$ 2,545,100 | \$ 2,567,015 | \$ 21,915 |
| Investment earnings | 800 | 800 | 2,385 | 1,585 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Revenues | 2,545,900 | 2,545,900 | 2,569,400 | 23,500 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| EXPENDITURES | | | | |
| Debt service: | | | | |
| Principal | 1,665,500 | 1,665,500 | 1,665,532 | (32) |
| Interest and fiscal charges | 984,000 | 984,000 | 999,876 | (15,876) |
| Tax collection fees | 30,200 | 30,200 | 29,406 | 794 |
| Bond Issuance Cost | | | 24,636 | (24,636) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Expenditures | 2,679,700 | 2,679,700 | 2,719,450 | (39,750) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (133,800) | (133,800) | (150,050) | (16,250) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Issuance of refunding bonds | | | 1,985,000 | 1,985,000 |
| Premium on refunding bonds | | | 163,605 | 163,605 |
| Payment to refunded bond escrow agent | | | (2,105,858) | (2,105,858) |
| Transfers in | 55,000 | 55,000 | 55,000 | |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Other Financing Sources (Uses) | 55,000 | 55,000 | 97,747 | 42,747 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net Change in Fund Balances | (78,800) | (78,800) | (52,303) | 26,497 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund Balances – Beginning | 82,725 | 82,725 | 107,771 | |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund Balances – Ending | \$ 3,925 | \$ 3,925 | \$ 55,468 | \$ 26,497 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

CITY OF HARKER HEIGHTS
HOTEL/MOTEL SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget Positive (Negative) |
|--|------------------|------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Hotel/Motel tax | \$ 75,800 | \$ 75,800 | \$ 75,361 | \$ (439) |
| Investment earnings | 200 | 200 | 300 | 100 |
| | <u>76,000</u> | <u>76,000</u> | <u>75,661</u> | <u>(339)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Economic development | | | | |
| Advertising | 12,500 | 12,500 | 12,450 | 50 |
| Historical restoration & preservation | 70,200 | 70,200 | 77,992 | (7,792) |
| Events | 6,500 | 6,500 | 4,325 | 2,175 |
| Promotion of the arts | 2,500 | 2,500 | 2,550 | (50) |
| | <u>91,700</u> | <u>91,700</u> | <u>97,317</u> | <u>(5,617)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (15,700) | (15,700) | (21,656) | (5,956) |
| Fund Balances – Beginning | <u>37,278</u> | <u>37,278</u> | <u>106,399</u> | <u></u> |
| Fund Balances – Ending | <u>\$ 21,578</u> | <u>\$ 21,578</u> | <u>\$ 84,743</u> | <u>\$ (5,956)</u> |

CITY OF HARKER HEIGHTS
RESTRICTED COURT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance With Final Budget Positive (Negative)</u> |
|--|--------------------------|--------------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Fines | \$ 69,000 | \$ 69,000 | \$ 79,511 | \$ 10,511 |
| Investment earnings | 200 | 200 | 472 | 272 |
| Total Revenues | <u>69,200</u> | <u>69,200</u> | <u>79,983</u> | <u>10,783</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | | | 421 | (421) |
| Public safety - courts | | | 55,000 | (55,000) |
| Total Expenditures | | | <u>55,421</u> | <u>(55,421)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>69,200</u> | <u>69,200</u> | <u>24,562</u> | <u>(44,638)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | <u>(55,000)</u> | <u>(55,000)</u> | <u>(20,120)</u> | <u>34,880</u> |
| Total Other Financing Sources (Uses) | <u>(55,000)</u> | <u>(55,000)</u> | <u>(20,120)</u> | <u>34,880</u> |
| Net Change in Fund Balances | 14,200 | 14,200 | 4,442 | (9,758) |
| Fund Balances – Beginning | <u>170,378</u> | <u>170,378</u> | <u>167,280</u> | |
| Fund Balances – Ending | <u><u>\$ 184,578</u></u> | <u><u>\$ 184,578</u></u> | <u><u>\$ 171,722</u></u> | <u><u>\$ (9,758)</u></u> |

**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS**

GENERAL FUND

These supplementary statements are included to provide management additional information for financial analysis.

CITY OF HARKER HEIGHTS
GENERAL FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|-------------------|-------------------|
| ASSETS | | |
| Cash | \$ 1,868,623 | \$ 4,107,642 |
| Investments | 8,450,452 | 6,039,768 |
| Receivables (net of allowance for uncollectibles): | | |
| Taxes | 60,668 | 49,228 |
| Accounts | 844,498 | 451,458 |
| Special assessments | 66 | 60 |
| Due from other funds | 1,814,461 | 5,694,100 |
| Due from other governments | 5,533 | 2,658 |
| Restricted assets: | | |
| Cash | 250,649 | 225,483 |
| Investments | 17,176 | 17,089 |
| Total Assets | \$ 13,312,126 | \$ 16,587,486 |
| LIABILITIES AND FUND BALANCES | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 2,595,416 | \$ 2,660,001 |
| Due to other funds | 97,648 | 3,263,953 |
| Unearned revenue | 657,330 | 422,887 |
| Total Liabilities | 3,350,394 | 6,346,841 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Property tax not yet available | 38,305 | 38,819 |
| Total deferred inflows of resources | 38,305 | 38,819 |
| Fund Balances: | | |
| Nonspendable | | |
| Restricted for: | | |
| Public safety | 2,640 | 2,633 |
| Cemetery | 17,699 | 17,611 |
| Committed | | |
| Assigned to: | | |
| Culture and recreation | 242,854 | 219,547 |
| Unassigned | 9,660,234 | 9,962,035 |
| Total Fund Balances | 9,923,427 | 10,201,826 |
| Total Liabilities and Fund Balances | \$ 13,312,126 | \$ 16,587,486 |

CITY OF HARKER HEIGHTS
GENERAL FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|---------------------|----------------------|
| REVENUES | | |
| Taxes and special assessments: | | |
| Property | \$ 8,322,400 | \$ 8,023,825 |
| Other taxes and special assessments | 7,912,198 | 7,967,402 |
| Licenses and permits | 320,130 | 330,275 |
| Fines | 741,760 | 1,079,329 |
| Charges for services | 856,542 | 794,838 |
| Intergovernmental | 187,373 | 932,019 |
| Investment earnings | 68,933 | 34,678 |
| Contributions and donations | 811,443 | 32,409 |
| Miscellaneous | 231,673 | 106,736 |
| | 19,452,452 | 19,301,511 |
| EXPENDITURES | | |
| Current: | | |
| General government | 3,668,155 | 4,101,711 |
| Public safety | 12,021,681 | 11,224,650 |
| Highways and streets | 1,540,501 | 1,287,553 |
| Culture and recreation | 2,921,860 | 2,836,809 |
| Economic development and assistance | 369,043 | 315,071 |
| Debt Service: | | |
| Principal | 227,492 | 91,743 |
| Interest and fiscal charges | 10,119 | 3,482 |
| | 20,758,851 | 19,861,019 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (1,306,399) | (559,508) |
| OTHER FINANCING SOURCES (USES) | | |
| Capital leases | 208,000 | 477,840 |
| Transfers in | 1,375,000 | 1,500,000 |
| Transfers out | (555,000) | (900,000) |
| | 1,028,000 | 1,077,840 |
| Net Change in Fund Balances | (278,399) | 518,332 |
| Fund Balances – Beginning | 10,201,826 | 9,683,494 |
| Fund Balances – Ending | \$ 9,923,427 | \$ 10,201,826 |



**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS**

DEBT SERVICE FUND

These supplementary statements are included to provide management additional information for financial analysis.

CITY OF HARKER HEIGHTS
DEBT SERVICE FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|------------|------------|
| ASSETS | | |
| Cash | \$ 57,206 | \$ 25,113 |
| Investments | 37,864 | 79,152 |
| Receivables (net of allowance for uncollectibles): | | |
| Taxes | 53,557 | 52,507 |
| Due from other governments | 12,572 | 1,174 |
| Total Assets | \$ 161,199 | \$ 157,946 |
| LIABILITIES AND FUND BALANCES | | |
| Liabilities: | | |
| Due to other funds | \$ 59,071 | \$ 898 |
| Total Liabilities | 59,071 | 898 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Property tax not yet available | 46,660 | 49,277 |
| Total deferred inflows of resources | 46,660 | 49,277 |
| Fund Balances: | | |
| Nonspendable | | |
| Restricted for: | | |
| Debt service | 55,468 | 107,771 |
| Committed | | |
| Assigned | | |
| Unassigned | | |
| Total Fund Balances | 55,468 | 107,771 |
| Total Liabilities and Fund Balances | \$ 161,199 | \$ 157,946 |

CITY OF HARKER HEIGHTS
DEBT SERVICE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|---------------------------------------|--------------|--------------|
| REVENUES | | |
| Taxes and special assessments: | | |
| Property | \$ 2,567,015 | \$ 2,488,624 |
| Investment earnings | 2,385 | 688 |
| | 2,569,400 | 2,489,312 |
| Total Revenues | | |
| EXPENDITURES | | |
| Debt service: | | |
| Principal | 1,665,532 | 1,458,164 |
| Interest and fiscal charges | 999,876 | 1,055,318 |
| Tax collection fees | 29,406 | 28,452 |
| Bond Issuance Cost | 24,636 | 64,454 |
| | 2,719,450 | 2,606,388 |
| Total Expenditures | | |
| Excess (Deficiency) of Revenues | | |
| Over (Under) Expenditures | (150,050) | (117,076) |
| OTHER FINANCING SOURCES (USES) | | |
| Issuance of refunding bonds | 1,985,000 | 6,569,597 |
| Premium on refunding bonds | 163,605 | |
| Payment to refunded bond escrow agent | (2,105,858) | (6,550,775) |
| Transfers in | 55,000 | 100,000 |
| | 97,747 | 118,822 |
| Total Other Financing Sources (Uses) | | |
| Net Change in Fund Balances | (52,303) | 1,746 |
| Fund Balances – Beginning | 107,771 | 106,025 |
| Fund Balances – Ending | \$ 55,468 | \$ 107,771 |



**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS**

CAPITAL PROJECTS FUND

These supplementary statements are included to provide management additional information for financial analysis.

CITY OF HARKER HEIGHTS
CAPITAL PROJECTS FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|--------------|---------------|
| ASSETS | | |
| Cash | \$ 1,335,338 | \$ 2,962,749 |
| Investments | 2,758,096 | 2,153,724 |
| Restricted assets: | | |
| Cash | 477,089 | 1,926,151 |
| Investments | 1,018,782 | 6,394,984 |
| Total Assets | \$ 5,589,305 | \$ 13,437,608 |
| LIABILITIES AND FUND BALANCES | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 408,231 | \$ 189,339 |
| Due to other funds | 829,325 | 975,396 |
| Total Liabilities | 1,237,556 | 1,164,735 |
| Fund Balances: | | |
| Nonspendable | | |
| Restricted for: | | |
| Capital projects | 1,495,871 | 8,321,135 |
| Committed | | |
| Assigned | | |
| Capital projects | 2,855,878 | 3,951,738 |
| Unassigned | | |
| Total Fund Balances | 4,351,749 | 12,272,873 |
| Total Liabilities and Fund Balances | \$ 5,589,305 | \$ 13,437,608 |

CITY OF HARKER HEIGHTS
CAPITAL PROJECTS FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|--------------|---------------|
| REVENUES | | |
| Investment earnings | \$ 18,370 | \$ 12,364 |
| Miscellaneous | 24,697 | |
| Intergovernmental | 259,215 | |
| | 302,282 | 12,364 |
| Total Revenues | | |
| EXPENDITURES | | |
| Debt Service: | | |
| Bond issuance costs | | |
| Capital outlay | 7,431,924 | 3,849,094 |
| | 7,431,924 | 3,849,094 |
| Total Expenditures | | |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (7,129,642) | (3,836,730) |
| OTHER FINANCING SOURCES (USES) | | |
| Issuance of certificates of obligation | | |
| Transfers in | 2,170,120 | 2,550,000 |
| Transfers out | (2,961,602) | (1,770,168) |
| | (791,482) | 779,832 |
| Total Other Financing Sources (Uses) | | |
| Net Change in Fund Balances | (7,921,124) | (3,056,898) |
| Fund Balances – Beginning | 12,272,873 | 15,329,771 |
| Fund Balances – Ending | \$ 4,351,749 | \$ 12,272,873 |



**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS**

SPECIAL REVENUE FUNDS

**HOTEL/MOTEL FUND
RESTRICTED COURT FUND
MEMORIAL FUND**

These supplementary statements are included to provide management additional information for financial analysis.

CITY OF HARKER HEIGHTS
HOTEL/MOTEL FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|-----------|------------|
| ASSETS | | |
| Cash | \$ 16,555 | \$ 93,412 |
| Investments | 56,759 | 2,656 |
| Receivables (net of allowance for uncollectibles): | | |
| Accounts | 11,429 | 11,331 |
| Total Assets | \$ 84,743 | \$ 107,399 |
| LIABILITIES AND FUND BALANCES | | |
| Liabilities: | | |
| Due to other funds | | 1,000 |
| Total Liabilities | | 1,000 |
| Fund Balances: | | |
| Nonspendable | | |
| Restricted for: | | |
| Economic development | 84,743 | 106,399 |
| Committed | | |
| Assigned | | |
| Unassigned | | |
| Total Fund Balances | 84,743 | 106,399 |
| Total Liabilities and Fund Balances | \$ 84,743 | \$ 107,399 |

CITY OF HARKER HEIGHTS
HOTEL/MOTEL FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|------------------|-------------------|
| REVENUES | | |
| Taxes – other | \$ 75,361 | \$ 75,371 |
| Investment earnings | 300 | 353 |
| | <u>75,661</u> | <u>75,724</u> |
| Total Revenues | <u>75,661</u> | <u>75,724</u> |
| EXPENDITURES | | |
| Current: | | |
| Economic development and assistance | 97,317 | 158,803 |
| Total Expenditures | <u>97,317</u> | <u>158,803</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (21,656) | (83,079) |
| Fund Balances – Beginning | 106,399 | 189,478 |
| Fund Balances – Ending | <u>\$ 84,743</u> | <u>\$ 106,399</u> |

CITY OF HARKER HEIGHTS
RESTRICTED COURT FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--------------------------|------------|------------|
| ASSETS | | |
| Cash | \$ 82,225 | \$ 76,739 |
| Investments | 73,088 | 72,865 |
| Due from other funds | 16,409 | 17,676 |
| | \$ 171,722 | \$ 167,280 |
| FUND BALANCES | | |
| Nonspendable | | |
| Restricted for: | | |
| Public safety | 171,722 | 167,280 |
| Committed | | |
| Assigned | | |
| Unassigned | | |
| | \$ 171,722 | \$ 167,280 |

CITY OF HARKER HEIGHTS
RESTRICTED COURT FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|------------|------------|
| REVENUES | | |
| Fines | \$ 79,511 | \$ 65,842 |
| Investment earnings | 472 | 260 |
| | 79,983 | 66,102 |
| Total Revenues | | |
| EXPENDITURES | | |
| Current: | | |
| General government | 421 | |
| Public safety: | | |
| Courts | 55,000 | 115,300 |
| | 55,421 | 115,300 |
| Total Expenditures | | |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 24,562 | (49,198) |
| OTHER FINANCING SOURCES (USES) | | |
| Transfer out | (20,120) | |
| | (20,120) | |
| Total Other Financing Sources (Uses) | | |
| Net Change in Fund Balances | 4,442 | |
| Fund Balances – Beginning | 167,280 | 216,478 |
| | \$ 171,722 | \$ 167,280 |
| Fund Balances – Ending | | |



**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS**

PROPRIETARY FUNDS

ENTERPRISE FUNDS:

**WATER AND SEWER FUND
SANITATION FUND
DRAINAGE FUND**

These supplementary statements are included to provide management additional information for financial analysis.

CITY OF HARKER HEIGHTS
WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF NET POSITION
SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|---------------|---------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 255,586 | \$ 1,091,920 |
| Investments | 2,015,088 | 1,752,307 |
| Receivables (net of allowance for uncollectibles): | | |
| Accounts | 976,136 | 989,134 |
| Due from other funds | 97,703 | 3,225,666 |
| Inventory of supplies, at first-in, first-out cost | 101,371 | 100,855 |
| Restricted cash | 63,083 | 75,019 |
| Restricted investments | 403,990 | 403,443 |
| Total Current Assets | 3,912,957 | 7,638,344 |
| Noncurrent Assets: | | |
| Capital Assets | | |
| Land and improvements | 159,523 | 159,523 |
| Buildings and lift stations | 3,128,004 | 3,128,004 |
| Furniture and fixtures | 12,375 | 12,375 |
| Machinery and equipment | 1,513,910 | 1,176,949 |
| Vehicles | 611,571 | 611,571 |
| Water and sewer system | 47,271,357 | 43,939,296 |
| Other improvements | 1,144 | 1,144 |
| Construction in progress | 3,348,204 | 3,548,619 |
| Less accumulated depreciation | (12,912,985) | (12,024,913) |
| Total Capital Assets (Net of Depreciation) | 43,133,103 | 40,552,568 |
| Total Noncurrent Assets | 43,133,103 | 40,552,568 |
| Total Assets | \$ 47,046,060 | \$ 48,190,912 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred amount on refunding of debt | 521,159 | 315,557 |
| Deferred outflows related to pensions | 186,505 | 89,275 |
| Total Deferred Outflows of Resources | \$ 707,664 | \$ 404,832 |

CITY OF HARKER HEIGHTS
WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|---|----------------------|----------------------|
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | | |
| Due to other funds | \$ 657,431 | \$ 4,486,121 |
| Accrued compensated absences | 27,000 | 22,500 |
| Refundable meter deposits | 329,108 | 324,417 |
| Accrued interest payable | 76,238 | 86,531 |
| Capital leases payable - current | | |
| General obligation bonds - current | 500,807 | 216,596 |
| Certificates of obligation - current | 705,000 | 940,000 |
| | <u>2,295,584</u> | <u>6,076,165</u> |
| Total Current Liabilities | | |
| Noncurrent Liabilities: | | |
| Accrued compensated absences | 5,000 | 4,500 |
| Net pension liability | 600,134 | 483,296 |
| Net other postemployment benefit obligation | 60,699 | 45,574 |
| Capital leases payable | | |
| General obligation bonds payable | 9,227,827 | 5,243,636 |
| Certificates of obligation (net of unamortized discounts) | 8,457,389 | 13,468,542 |
| | <u>18,351,049</u> | <u>19,245,548</u> |
| Total Noncurrent Liabilities | | |
| | <u>\$ 20,646,633</u> | <u>\$ 25,321,713</u> |
| Total Liabilities | | |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows related to pensions | \$ 10,449 | \$ 2,258 |
| NET POSITION | | |
| Net investment in capital assets | 24,763,239 | 23,682,005 |
| Restricted for debt service | 32,662 | 50,515 |
| Restricted for capital projects | 670,207 | |
| Unrestricted | 1,630,534 | (460,747) |
| | <u>\$ 27,096,642</u> | <u>\$ 23,271,773</u> |
| Total Net Position | | |



CITY OF HARKER HEIGHTS
WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| OPERATING REVENUES | | |
| Charges for services | \$ 9,340,150 | \$ 8,744,036 |
| Other | 12,756 | 31,473 |
| | <u>9,352,906</u> | <u>8,775,509</u> |
| OPERATING EXPENSES | | |
| Water purchases | 2,109,504 | 2,569,006 |
| Contractual services | 349,048 | 322,431 |
| Personal services | 1,272,184 | 1,137,202 |
| Utilities and telephone | 504,772 | 492,882 |
| Repairs and maintenance | 436,019 | 440,024 |
| Supplies | 126,019 | 127,378 |
| Uncollectible accounts | 53,782 | 56,259 |
| Professional fees | 143,695 | 53,825 |
| Depreciation | 888,071 | 888,343 |
| Other | 853 | 1,843 |
| | <u>5,883,947</u> | <u>6,089,193</u> |
| Operating Income | <u>3,468,959</u> | <u>2,686,316</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment earnings | 16,627 | 9,406 |
| Interest expense | (415,206) | (546,060) |
| Bond issuance costs | (57,113) | (26,856) |
| Gain on sale of capital assets | | |
| Loss on sale of capital assets | | |
| | <u>(455,692)</u> | <u>(563,510)</u> |
| Income Before Transfers | 3,013,267 | 2,122,806 |
| Transfers in | 2,961,602 | 1,537,598 |
| Transfers out | (2,150,000) | (2,425,000) |
| | <u>3,824,869</u> | <u>1,235,404</u> |
| Change in Net Position | 3,824,869 | 1,235,404 |
| Total Net Position - Beginning | <u>23,271,773</u> | <u>22,036,369</u> |
| Total Net Position – Ending | <u>\$ 27,096,642</u> | <u>\$ 23,271,773</u> |

CITY OF HARKER HEIGHTS
WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | \$ 9,357,839 | \$ 8,844,489 |
| Cash payments to suppliers | (3,724,208) | (1,209,305) |
| Cash payments to employees | (1,224,260) | (778,290) |
| Other operating cash receipts (payments) | (687,971) | (3,194,193) |
| | 3,721,400 | 3,662,701 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Transfers in | 2,961,602 | 1,537,598 |
| Transfers out | (2,150,000) | (2,425,000) |
| | 811,602 | (887,402) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition and construction of capital assets | (3,468,607) | (1,891,271) |
| Proceeds from issuance of debt | 4,541,131 | 2,298,329 |
| Principal repayments | (5,781,596) | (3,809,491) |
| Interest paid on long-term debt | (425,499) | (553,967) |
| | (5,134,571) | (3,956,400) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales and maturities of investments | (263,328) | 2,875,565 |
| Purchase of investments | | (1,905,220) |
| Interest & penalties received | 16,627 | 9,406 |
| | (246,701) | 979,751 |
| Net Increase (Decrease) in Cash For The Year | (848,270) | (201,350) |
| Cash - Beginning | 1,166,939 | 1,368,289 |
| Cash - Ending | \$ 318,669 | \$ 1,166,939 |
| Reconciliation of cash: | | |
| Cash | 255,586 | 1,091,920 |
| Restricted Cash | 63,083 | 75,019 |
| Total Cash | \$ 318,669 | \$ 1,166,939 |

The notes to the financial statements are an integral part of this statement.

CITY OF HARKER HEIGHTS
WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|--------------|--------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | |
| Operating Income | \$ 3,468,959 | \$ 2,686,316 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | |
| Depreciation expense | 888,071 | 888,343 |
| Change in Assets and Liabilities: | | |
| (Increase) Decrease in accounts receivable | 12,998 | 79,155 |
| (Increase) Decrease in deferred outflow in net pension obligation | (97,230) | (89,275) |
| Increase in allowance for doubtful accounts | | |
| (Increase) Decrease in due from other funds | 3,127,963 | (3,225,666) |
| (Increase) Decrease in inventory | (516) | 107 |
| Increase (Decrease) in accounts payable and accrued liabilities | | |
| Increase (Decrease) in refundable meter deposits | 4,691 | 21,298 |
| Increase (Decrease) in due to other funds | (3,828,690) | 2,854,236 |
| Increase (Decrease) in compensated absences | 5,000 | 2,000 |
| (Increase) Decrease in deferred inflow in net pension obligation | 8,191 | 2,258 |
| Increase (Decrease) in net pension obligation | 116,838 | 438,370 |
| Increase (Decrease) in net other postemployment benefit obligation | 15,125 | 5,559 |
| Total Adjustments | 252,441 | 976,385 |
| Net cash Provided By Operating Activities: | 3,721,400 | 3,662,701 |
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES: | | |
| Decrease in fair value of investments | | |
| Gain on sale of capital assets | | |
| Loss on sale of capital assets | | |
| Amortization of deferred amount on advanced refunding of certificates of obligation | \$ 52,343 | \$ 42,176 |
| Amortization of bond discount | 1,770 | 2,670 |
| Total Noncash Investing, Capital and Financing Activities | \$ 54,113 | \$ 44,846 |

The notes to the financial statements are an integral part of this statement.

CITY OF HARKER HEIGHTS
SANITATION FUND
COMPARATIVE STATEMENTS OF NET POSITION
SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|------------|------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 141,547 | \$ 91,063 |
| Investments | 37,845 | 37,730 |
| Receivables (net of allowance for uncollectibles): | | |
| Accounts | 203,097 | 191,327 |
| Due from other funds | 525 | 1,831 |
| Total Current Assets | 383,014 | 321,951 |
| Capital Assets: | | |
| Machinery & equipment | 19,326 | 19,326 |
| Improvements other than buildings | 23,728 | 23,728 |
| Less accumulated depreciation | (38,502) | (32,966) |
| Total Capital Assets (Net of Depreciation) | 4,552 | 10,088 |
| Total Noncurrent Assets | 4,552 | 10,088 |
| Total Assets | \$ 387,566 | \$ 332,039 |
| Deferred Outflows of Resources: | | |
| Deferred outflow related to pensions | 5,700 | 2,269 |
| Total Deferred Outflows of Resources | \$ 5,700 | \$ 2,269 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Due to other funds | \$ 282,240 | \$ 163,178 |
| Accrued compensated absences | 1,000 | 1,000 |
| Total Current Liabilities | 283,240 | 164,178 |
| Noncurrent Liabilities: | | |
| Accrued compensated absences | | |
| Net pension liability | 16,408 | 12,287 |
| Net other postemployment benefit obligation | 3,260 | 2,624 |
| Total Noncurrent Liabilities | 19,668 | 14,911 |
| Total Liabilities | \$ 302,908 | \$ 179,089 |
| Deferred inflows related to pensions | \$ 346 | \$ 57 |
| NET POSITION | | |
| Net investment in capital assets | 4,552 | 10,088 |
| Unrestricted | 85,460 | 145,074 |
| Total Net Position | \$ 90,012 | \$ 155,162 |

CITY OF HARKER HEIGHTS
SANITATION FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|---|-------------------------|--------------------------|
| OPERATING REVENUES | | |
| Charges for services | \$ 1,940,142 | \$ 1,886,755 |
| Franchise fees | 160,891 | 124,567 |
| Other | 1,301 | 1,214 |
| | <u>2,102,334</u> | <u>2,012,536</u> |
| OPERATING EXPENSES | | |
| Contractual services | 1,664,567 | 1,575,344 |
| Personal services | 57,226 | 54,386 |
| Utilities | 1,085 | 1,115 |
| Repairs and maintenance | 3,926 | 2,148 |
| Supplies | 462 | 892 |
| Uncollectible accounts | 9,699 | 9,306 |
| Depreciation | 5,535 | 5,535 |
| Professional fees | 500 | |
| Other | | |
| | <u>1,743,000</u> | <u>1,648,726</u> |
| Total Operating Expenses | <u>1,743,000</u> | <u>1,648,726</u> |
| Operating Income | <u>359,334</u> | <u>363,810</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment earnings | <u>516</u> | <u>352</u> |
| Total Nonoperating Revenues (Expenses) | <u>516</u> | <u>352</u> |
| Income Before Transfers | 359,850 | 364,162 |
| Transfers in | | |
| Transfers out | <u>(425,000)</u> | <u>(425,000)</u> |
| Change in Net Position | (65,150) | (60,838) |
| Total Net Position - Beginning | <u>155,162</u> | <u>216,000</u> |
| Total Net Position – Ending | <u><u>\$ 90,012</u></u> | <u><u>\$ 155,162</u></u> |

CITY OF HARKER HEIGHTS
SANITATION FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------------|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | \$ 1,918,673 | \$ 1,874,486 |
| Cash payments to suppliers | (1,551,478) | (1,550,399) |
| Cash payments to employees | (55,611) | (54,308) |
| Franchise fees | 160,891 | 124,567 |
| Other operating cash receipts (payments) | <u>2,607</u> | <u>(546)</u> |
| Net Cash Provided By Operating Activities | <u>475,082</u> | <u>393,800</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Transfers in | | |
| Transfers out | <u>(425,000)</u> | <u>(425,000)</u> |
| Net Cash Provided (Used) By Noncapital Financing Activities | <u>(425,000)</u> | <u>(425,000)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition and construction of capital assets | <u> </u> | <u> </u> |
| Net Cash Provided (Used) By Capital and Related Financing Activities | <u> </u> | <u> </u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales and maturities of investments | | |
| Purchase of investments | (114) | 14,974 |
| Interest received | <u>516</u> | <u>352</u> |
| Net Cash Provided (Used) By Investing Activities | <u>402</u> | <u>15,326</u> |
| Net Increase (Decrease) in Cash For The Year | 50,484 | (15,874) |
| Cash - Beginning | <u>91,063</u> | <u>106,937</u> |
| Cash - Ending | <u><u>\$ 141,547</u></u> | <u><u>\$ 91,063</u></u> |

The notes to the financial statements are an integral part of this statement.

CITY OF HARKER HEIGHTS
SANITATION FUND
COMPARATIVE STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|------------|------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | |
| Operating Income | \$ 359,334 | \$ 363,810 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | |
| Depreciation expense | 5,535 | 5,535 |
| Change in Assets and Liabilities: | | |
| (Increase) Decrease in accounts receivable | (11,770) | (2,963) |
| (Increase) Decrease in deferred outflow in net pension obligation | (3,431) | (2,269) |
| (Increase) Decrease in deferred inflow in net pension obligation | 289 | |
| Increase in allowance for doubtful accounts | | |
| (Increase) Decrease in due from other funds | 1,306 | (1,760) |
| Increase (Decrease) in due to other funds | 119,062 | 29,099 |
| Increase (Decrease) in compensated absences | | (2,000) |
| Increase (Decrease) in net pension obligation | 4,121 | 2,123 |
| Increase (Decrease) in net other postemployment benefit obligation | 636 | 2,225 |
| Total Adjustments | 115,748 | 29,990 |
| Net cash Provided By Operating Activities: | \$ 475,082 | \$ 393,800 |

The notes to the financial statements are an integral part of this statement.

CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF NET POSITION
SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|--------------|--------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 7,689 | \$ 60,244 |
| Investments | 5,254 | 5,238 |
| Receivables (net of allowance for uncollectibles): | | |
| Accounts | 79,183 | 70,863 |
| Due from other funds | 1,087 | 18,834 |
| Restricted cash | 3,467 | 3,456 |
| Restricted investments | 3,157 | 3,147 |
| Total Current Assets | 99,837 | 161,782 |
| Capital Assets: | | |
| Land and improvements | 125,160 | 125,160 |
| Machinery and equipment | 232,662 | 232,662 |
| Vehicles | 92,354 | 92,354 |
| Drainage system | 5,820,763 | 5,818,263 |
| Construction in progress | | 2,500 |
| Less accumulated depreciation | (776,238) | (660,644) |
| Total Capital Assets (Net of Depreciation) | 5,494,701 | 5,610,295 |
| Total Noncurrent Assets | 5,494,701 | 5,610,295 |
| Total Assets | \$ 5,594,538 | \$ 5,772,077 |
| Deferred Outflows of Resources: | | |
| Deferred outflow related to pensions | 32,219 | 15,585 |
| Total Deferred Outflows of Resources | \$ 32,219 | \$ 15,585 |

CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|------------------|------------------|
| LIABILITIES | | |
| Current Liabilities: | | |
| Due to other funds | \$ 4,470 | \$ 67,561 |
| Accrued compensated absences | 8,000 | 8,000 |
| Accrued interest payable | 7,296 | 7,735 |
| General obligation bonds - current | 38,924 | 37,872 |
| Certificates of obligation - current | 70,000 | 65,000 |
| Total Current Liabilities | 128,690 | 186,168 |
| Noncurrent Liabilities: | | |
| Accrued compensated absences | 3,000 | 4,000 |
| Net pension liability | 104,360 | 84,372 |
| Net other postemployment benefit obligation | 6,521 | 4,766 |
| General obligation bonds (net of deferred amount on advanced refunding) | 432,898 | 471,822 |
| Certificates of obligation (net of unamortized discounts) | 993,631 | 1,069,278 |
| Total Noncurrent Liabilities | 1,540,410 | 1,634,238 |
| Total Liabilities | \$ 1,669,100 | \$ 1,820,406 |
| Deferred inflows related to pensions | \$ 1,796 | \$ 394 |
| NET POSITION | | |
| Net investment in capital assets | 3,959,248 | 3,966,323 |
| Restricted for debt service | 6,624 | 6,603 |
| Unrestricted | (10,011) | (6,063) |
| Total Net Position | \$ 3,955,861 | \$ 3,966,863 |



CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|---|--------------|--------------|
| OPERATING REVENUES | | |
| Charges for services | \$ 796,111 | \$ 771,502 |
| Other | 958 | |
| | 797,069 | 771,502 |
| OPERATING EXPENSES | | |
| Contractual services | 2,175 | 3,691 |
| Personal services | 130,272 | 127,095 |
| Repairs and maintenance | 41,372 | 36,391 |
| Supplies | 10,696 | 9,679 |
| Uncollectible accounts | 3,101 | 2,858 |
| Depreciation | 115,594 | 125,473 |
| Professional fees | | |
| Other | 170 | 299 |
| | 303,380 | 305,486 |
| Total Operating Expenses | 303,380 | 305,486 |
| Operating Income | 493,689 | 466,016 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment earnings | 433 | 229 |
| Bond issuance costs | | |
| Interest expense | (55,124) | (58,331) |
| | (54,691) | (58,102) |
| Total Nonoperating Revenues (Expenses) | (54,691) | (58,102) |
| Income Before Transfers | 438,998 | 407,914 |
| Transfers in | | 232,570 |
| Transfers out | (450,000) | (400,000) |
| | (11,002) | 240,484 |
| Change in Net Position | (11,002) | 240,484 |
| Total Net Position - Beginning | 3,966,863 | 3,726,379 |
| Total Net Position – Ending | \$ 3,955,861 | \$ 3,966,863 |

CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | \$ 787,620 | \$ 768,924 |
| Cash payments to suppliers | (120,435) | 10,280 |
| Cash payments to employees | (124,761) | (125,288) |
| Other operating cash receipts (payments) | 18,706 | (18,819) |
| | <u>561,130</u> | <u>635,097</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Transfers in | | 232,570 |
| Transfers out | (450,000) | (400,000) |
| | <u>(450,000)</u> | <u>(167,430)</u> |
| Net Cash Provided (Used) By Noncapital Financing Activities | | |
| | <u>(450,000)</u> | <u>(167,430)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Net proceeds from issuance of certificates of obligation | | (250,317) |
| Acquisition and construction of capital assets | | (102,346) |
| Principal repayments | (102,872) | (64,682) |
| Interest paid on long-term debt | (61,210) | (64,682) |
| | <u>(164,082)</u> | <u>(417,345)</u> |
| Net Cash Provided (Used) By Capital and Related Financing Activities | | |
| | <u>(164,082)</u> | <u>(417,345)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales and maturities of investments | | (5) |
| Purchase of investments | (25) | 229 |
| Interest received | 433 | 229 |
| | <u>408</u> | <u>224</u> |
| Net Cash Provided (Used) By Investing Activities | | |
| | <u>408</u> | <u>224</u> |
| Net Increase (Decrease) in Cash For The Year | (52,544) | 50,546 |
| Cash - Beginning | 63,700 | 13,154 |
| Cash - Ending | <u>\$ 11,156</u> | <u>\$ 63,700</u> |
| Reconciliation of cash: | | |
| Cash | 7,689 | 60,244 |
| Restricted Cash | 3,467 | 3,456 |
| | <u>11,156</u> | <u>63,700</u> |
| Total Cash | <u>\$ 11,156</u> | <u>\$ 63,700</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------------|-----------------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | |
| Operating Income | \$ 493,689 | \$ 466,016 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | |
| Depreciation expense | 115,594 | 125,473 |
| Change in Assets and Liabilities: | | |
| (Increase) Decrease in accounts receivable | (8,320) | (2,279) |
| (Increase) Decrease in deferred outflow in net pension obligation | (16,634) | (15,585) |
| (Increase) Decrease in deferred inflow in net pension obligation | 1,402 | |
| Increase in allowance for doubtful accounts | | |
| (Increase) Decrease in due from other funds | 17,747 | (18,818) |
| Increase (Decrease) in due to other funds | (63,091) | 62,899 |
| Increase (Decrease) in compensated absences | (1,000) | 2,000 |
| Increase (Decrease) in net pension obligation | 19,988 | 14,574 |
| Increase (Decrease) in net other post- employment benefit obligation | 1,755 | 818 |
| Total Adjustments | <u>67,441</u> | <u>169,082</u> |
| Net cash Provided By Operating Activities: | <u>\$ 561,130</u> | <u>\$ 635,098</u> |
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES: | | |
| Amortization of bond discount | <u> </u> | <u> </u> |
| Total Noncash Investing, Capital and Financing Activities | <u> </u> | <u> </u> |

The notes to the financial statements are an integral part of this statement.



CAPITAL ASSETS
USED IN THE OPERATION
OF GOVERNMENTAL FUNDS



CITY OF HARKER HEIGHTS
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE
SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|---------------|---------------|
| Governmental Funds Capital Assets: | | |
| Land | \$ 15,575,872 | \$ 15,575,872 |
| Buildings | 13,579,292 | 13,473,669 |
| Improvements other than buildings | 176,520 | 129,693 |
| Machinery and equipment | 6,176,076 | 5,610,101 |
| Vehicles | 5,466,546 | 4,341,096 |
| Furniture and fixtures | 898,601 | 884,665 |
| Street and drainage improvements | 27,874,157 | 25,204,075 |
| Construction in progress | 8,485,842 | 3,807,711 |
| Total governmental funds capital assets | \$ 78,232,906 | \$ 69,026,882 |
| Investment in Governmental Funds Capital Assets by Source: | | |
| General fund | \$ 10,056,790 | \$ 9,138,377 |
| Special revenue funds | 892,580 | 892,580 |
| Capital projects fund | 60,235,870 | 52,721,259 |
| Donations | 2,365,666 | 1,592,666 |
| Grants, revenue sharing | 4,682,000 | 4,682,000 |
| Total governmental funds capital assets | \$ 78,232,906 | \$ 69,026,882 |

Note:

This schedule presents only the capital asset balances related to governmental funds. The City's infrastructure capital assets are included in the above street and drainage improvements.

CITY OF HARKER HEIGHTS
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
SEPTEMBER 30, 2016

| Function and Activity | Land | Buildings | Improvements other than Buildings | Machinery and Equipment |
|---|----------------------|----------------------|---|----------------------------|
| General government: | | | | |
| Council | | | | \$ 3,649 |
| Administration | 1,246,932 | 2,218,170 | 1,100 | 1,399,903 |
| Finance | | | | 132,485 |
| Pet Adoption Center | | 1,689,287 | | 11,324 |
| Total general government | <u>1,246,932</u> | <u>3,907,457</u> | | <u>1,547,361</u> |
| Public Safety: | | | | |
| Police | 53,228 | 2,898,398 | 47,007 | 1,201,987 |
| Fire and EMS | 27,578 | 1,074,764 | | 1,352,185 |
| Code Enforcement | | 125 | | 20,552 |
| Courts | | | | 239,035 |
| Total public safety | <u>80,806</u> | <u>3,973,287</u> | <u>47,007</u> | <u>2,813,759</u> |
| Highways and streets: | | | | |
| Maintenance | 110,811 | 203,225 | 1,995 | 706,868 |
| Street and drainage system | | | | |
| Total highways and streets | <u>110,811</u> | <u>203,225</u> | | <u>706,868</u> |
| Culture and recreation: | | | | |
| Parks and recreation | 14,119,960 | 1,352,970 | 81,068 | 793,637 |
| Library | 17,363 | 4,142,353 | | 175,117 |
| Total culture and recreation | <u>14,137,323</u> | <u>5,495,323</u> | <u>81,068</u> | <u>968,754</u> |
| Economic development and assistance | | | 45,350 | 139,334 |
| Construction in progress | | | | |
| Total governmental funds capital assets | <u>\$ 15,575,872</u> | <u>\$ 13,579,292</u> | <u>\$ 176,520</u> | <u>\$ 6,176,076</u> |

Note:

This schedule presents only the capital asset balances related to governmental funds.

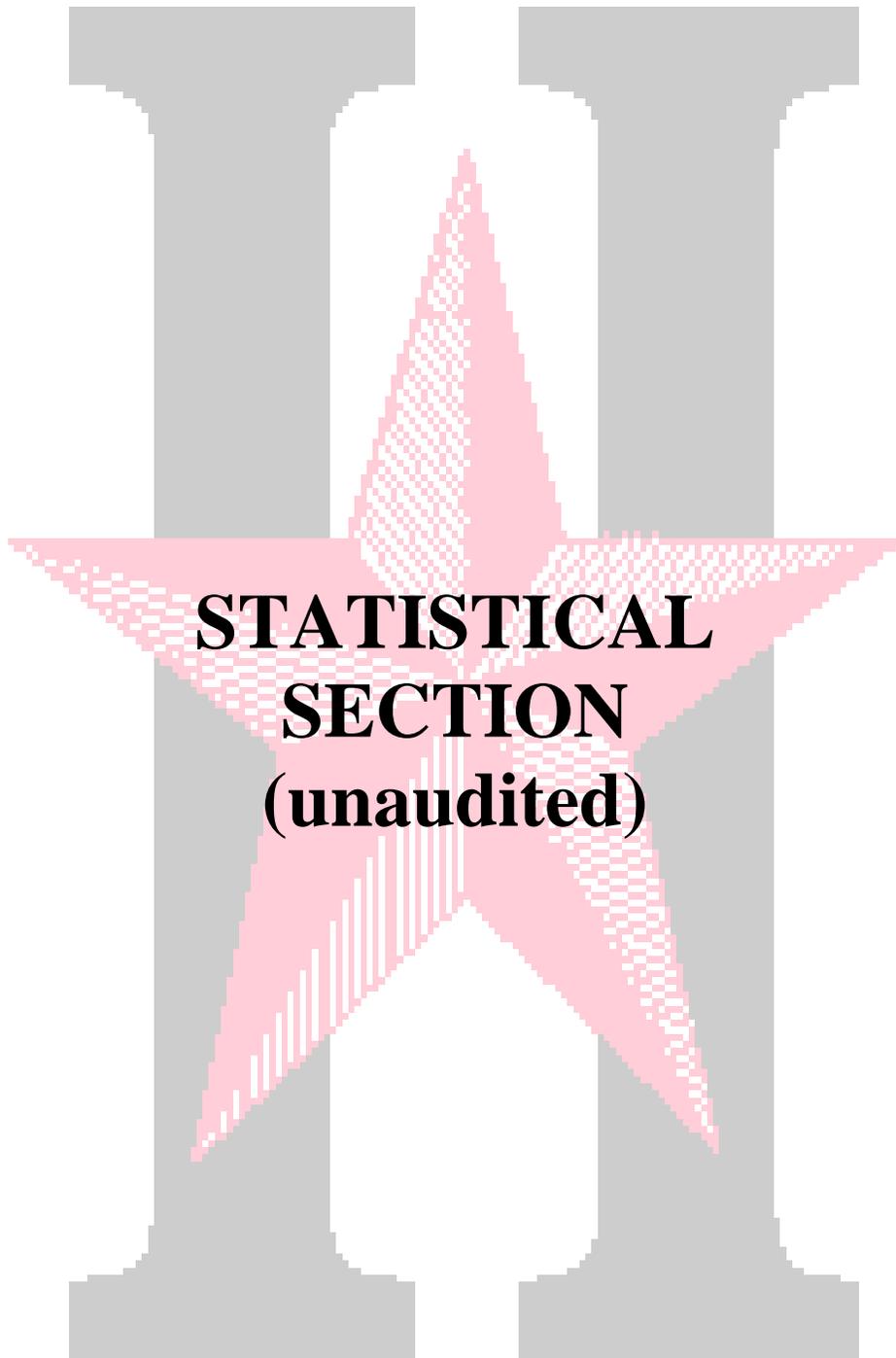
| <u>Vehicles</u> | <u>Furniture and Fixtures</u> | <u>Streets and Drainage Improvements</u> | <u>Construction in Progress</u> | <u>Total</u> |
|---------------------|-----------------------------------|--|-------------------------------------|----------------------|
| | \$ 3,755 | | | \$ 7,404 |
| | 141,851 | | | 5,007,956 |
| | 1,646 | | | 134,131 |
| <u>83,966</u> | <u>11,717</u> | | | <u>1,796,294</u> |
| | <u>158,969</u> | | | <u>6,945,785</u> |
| 2,069,702 | 212,829 | | | 6,483,151 |
| 2,337,803 | 13,449 | | | 4,805,779 |
| 46,821 | | | | 67,498 |
| <u>66,605</u> | <u>7,209</u> | | | <u>312,849</u> |
| <u>4,520,931</u> | <u>233,487</u> | | | <u>11,669,277</u> |
| 488,589 | | | | 1,511,488 |
| | | <u>27,874,157</u> | | <u>27,874,157</u> |
| <u>488,589</u> | | <u>27,874,157</u> | | <u>29,385,645</u> |
| 373,060 | 152,135 | | | 16,872,830 |
| | <u>351,300</u> | | | <u>4,686,133</u> |
| <u>373,060</u> | <u>503,435</u> | | | <u>21,558,963</u> |
| | <u>2,710</u> | | | <u>187,394</u> |
| | | | <u>8,485,842</u> | <u>8,485,842</u> |
| <u>\$ 5,466,546</u> | <u>\$ 898,601</u> | <u>\$ 27,874,157</u> | <u>\$ 8,485,842</u> | <u>\$ 78,232,906</u> |

CITY OF HARKER HEIGHTS
CAPTIAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
SEPTEMBER 30, 2016

| Function and Activity | Capital Assets October 1, 2015 | Additions | Transfers and Deletions | Capital Assets September 30, 2016 |
|---|-----------------------------------|----------------------|----------------------------|---|
| General government: | | | | |
| Council | \$ 7,404 | | | \$ 7,404 |
| Administration | 4,725,708 | 282,248 | | 5,007,956 |
| Finance | 123,331 | 10,800 | | 134,131 |
| Pet Adoption Center | 1,677,891 | 118,403 | | 1,796,294 |
| Total general government | <u>6,534,334</u> | <u>411,451</u> | | <u>6,945,785</u> |
| Public safety: | | | | |
| Police | 5,573,747 | 945,622 | 36,218 | 6,483,151 |
| Fire and EMS | 4,608,879 | 387,754 | 190,854 | 4,805,779 |
| Code Enforcement | 67,498 | | | 67,498 |
| Courts | 312,849 | | | 312,849 |
| Total public safety | <u>10,562,973</u> | <u>1,333,376</u> | <u>227,072</u> | <u>11,669,277</u> |
| Highways and streets: | | | | |
| Maintenance | 1,308,097 | 203,391 | | 1,511,488 |
| Street and drainage system | 25,204,074 | 2,670,083 | | 27,874,157 |
| Total highways and streets | <u>26,512,171</u> | <u>2,873,474</u> | | <u>29,385,645</u> |
| Culture and recreation: | | | | |
| Parks and recreation | 16,755,694 | 117,136 | | 16,872,830 |
| Library | 4,676,315 | 9,818 | | 4,686,133 |
| Total culture and recreation | <u>21,432,009</u> | <u>126,954</u> | | <u>21,558,963</u> |
| Economic development and assistance | <u>177,683</u> | <u>9,711</u> | | <u>187,394</u> |
| Construction in progress | <u>3,807,712</u> | <u>7,499,869</u> | <u>2,821,739</u> | <u>8,485,842</u> |
| Total governmental funds capital assets | <u>\$ 69,026,882</u> | <u>\$ 12,254,835</u> | <u>\$ 3,048,811</u> | <u>\$ 78,232,906</u> |

Note:

This schedule presents only the capital asset balances related to governmental funds.



**STATISTICAL
SECTION
(unaudited)**

Statistical Section

This part of the City of Harker Heights' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

| <u>Contents</u> | <u>Page</u> |
|---|--------------------|
| Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time. | 114 |
| Revenue Capacity These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes. | 120 |
| Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future. | 125 |
| Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments. | 130 |
| Operating Information These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information related to the services the City provides and the activities it performs. | 133 |

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.



**CITY OF HARKER HEIGHTS
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(amounts expressed in thousands)**

| | Fiscal Year | | | | | | | | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Governmental activities | | | | | | | | | | |
| Net investment in capital assets | \$ 30,534 | \$ 26,705 | \$ 24,343 | \$ 23,247 | \$ 21,839 | \$ 19,802 | \$ 19,815 | \$ 18,703 | \$ 9,766 | \$ 3,348 |
| Restricted | 1,828 | 12,894 | 12,000 | 4,921 | 8,773 | 15,953 | 11,605 | 18,516 | 12,667 | 18,392 |
| Assigned | 3,099 | | 179 | 146 | 91 | | | | | |
| Unrestricted | 769 | (3,716) | 3,358 | 7,721 | 5,695 | 2,911 | 4,731 | (691) | 6,716 | 6,712 |
| Total governmental activities net positior | <u>36,230</u> | <u>35,883</u> | <u>39,880</u> | <u>36,035</u> | <u>36,398</u> | <u>38,666</u> | <u>36,151</u> | <u>36,528</u> | <u>29,149</u> | <u>28,452</u> |
| Business-type activities | | | | | | | | | | |
| Net investment in capital assets | 28,727 | 27,659 | 25,968 | 25,078 | 22,756 | 21,717 | 20,960 | 19,893 | 14,305 | 11,682 |
| Restricted | 710 | 57 | 56 | 32 | 34 | | | 35 | 18 | 73 |
| Unrestricted | 1,706 | (322) | 384 | 1,657 | 1,310 | (3,873) | (3,711) | (5,627) | 2,820 | 1,487 |
| Total business-type activities net positior | <u>31,143</u> | <u>27,394</u> | <u>26,408</u> | <u>26,767</u> | <u>24,100</u> | <u>17,844</u> | <u>17,249</u> | <u>14,301</u> | <u>17,143</u> | <u>13,242</u> |
| Primary Government | | | | | | | | | | |
| Net investment in capital assets | 59,261 | 54,364 | 50,311 | 48,325 | 44,595 | 41,519 | 40,775 | 38,596 | 24,071 | 15,030 |
| Restricted | 2,538 | 12,951 | 12,056 | 4,953 | 8,807 | 15,953 | 11,605 | 18,551 | 12,685 | 18,465 |
| Assigned | 3,099 | | 179 | 146 | 91 | | | | | |
| Unrestricted | 2,475 | (4,038) | 3,742 | 9,378 | 7,005 | (962) | 1,020 | (6,318) | 9,536 | 8,199 |
| Total primary government net positior | <u>\$ 67,373</u> | <u>\$ 63,277</u> | <u>\$ 66,288</u> | <u>\$ 62,802</u> | <u>\$ 60,498</u> | <u>\$ 56,510</u> | <u>\$ 53,400</u> | <u>\$ 50,829</u> | <u>\$ 46,292</u> | <u>\$ 41,694</u> |

CITY OF HARKER HEIGHTS
CHANGES IN NET POSITION (continued)
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

| | Fiscal Year | | | | | | | | | |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Expenses | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| General government | \$ 3,866 | \$ 3,967 | \$ 2,862 | \$ 3,247 | \$ 2,818 | \$ 2,869 | \$ 3,304 | \$ 2,182 | \$ 1,995 | \$ 1,593 |
| Public safety | 12,715 | 10,478 | 11,137 | 10,553 | 10,383 | 10,216 | 9,597 | 9,079 | 8,171 | 6,798 |
| Highways/streets | 880 | 1,768 | 1,828 | 1,734 | 1,782 | 1,541 | 1,498 | 1,488 | 1,312 | 1,154 |
| Economic development | 410 | 447 | 538 | 483 | 468 | 362 | 503 | 357 | 335 | 290 |
| Culture and recreation | 3,378 | 3,051 | 3,077 | 2,932 | 2,928 | 2,732 | 2,575 | 2,003 | 1,631 | 1,617 |
| Interest on long-term debt | 1,032 | 988 | 1,214 | 1,094 | 1,237 | 1,225 | 1,154 | 1,169 | 964 | 944 |
| Other | | | | | | | | | | |
| Total Governmental Activities | <u>22,281</u> | <u>20,699</u> | <u>20,656</u> | <u>20,043</u> | <u>19,616</u> | <u>18,945</u> | <u>18,631</u> | <u>16,278</u> | <u>14,408</u> | <u>12,396</u> |
| Business-type Activities: | | | | | | | | | | |
| Water and sewer | 6,356 | 6,662 | 6,397 | 6,088 | 5,862 | 6,593 | 5,559 | 5,228 | 4,905 | 4,023 |
| Drainage | 359 | 364 | 304 | 325 | 283 | 283 | 251 | 225 | 187 | 1,400 |
| Sanitation | 1,743 | 1,649 | 1,577 | 1,536 | 1,529 | 1,475 | 1,361 | 1,295 | 1,552 | 125 |
| Total Business-type Activities | <u>8,458</u> | <u>8,675</u> | <u>8,278</u> | <u>7,949</u> | <u>7,674</u> | <u>8,351</u> | <u>7,171</u> | <u>6,748</u> | <u>6,644</u> | <u>5,548</u> |
| Total Expenses | <u>\$ 30,739</u> | <u>\$ 29,374</u> | <u>\$ 28,934</u> | <u>\$ 27,992</u> | <u>\$ 27,290</u> | <u>\$ 27,296</u> | <u>\$ 25,802</u> | <u>\$ 23,026</u> | <u>\$ 21,052</u> | <u>\$ 17,944</u> |
| Program Revenues | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Charges for services | | | | | | | | | | |
| General government | \$ 249 | \$ 111 | \$ 61 | \$ 56 | \$ 87 | \$ 67 | \$ 93 | \$ 83 | \$ 102 | \$ 111 |
| Public safety | 1,554 | 1,672 | 1,831 | 1,858 | 1,998 | 2,029 | 1,874 | 1,937 | 1,825 | 1,744 |
| Culture and recreation | 291 | 293 | 311 | 291 | 306 | 246 | 273 | 204 | 136 | 134 |
| Other activities | 278 | 296 | 546 | 249 | 164 | 157 | 202 | 199 | 346 | 290 |
| Operating grants and contributions | 1,083 | 792 | 66 | 477 | 598 | 246 | 210 | 185 | 121 | 506 |
| Capital Grants and contributions | | | | | | 234 | 138 | | 215 | 40 |
| Total Governmental Activities | <u>3,455</u> | <u>3,164</u> | <u>2,815</u> | <u>2,931</u> | <u>3,153</u> | <u>2,979</u> | <u>2,790</u> | <u>2,608</u> | <u>2,745</u> | <u>2,825</u> |
| Business-type Activities: | | | | | | | | | | |
| Charges for services | 12,091 | 11,435 | 11,189 | 11,553 | 11,586 | 11,833 | 10,062 | 9,976 | 9,616 | 8,088 |
| Total Business-type Activities | <u>12,091</u> | <u>11,435</u> | <u>11,189</u> | <u>11,553</u> | <u>11,586</u> | <u>11,833</u> | <u>10,062</u> | <u>9,976</u> | <u>9,616</u> | <u>8,088</u> |
| Total Program Revenues | <u>\$ 15,546</u> | <u>\$ 14,599</u> | <u>\$ 14,004</u> | <u>\$ 14,484</u> | <u>\$ 14,739</u> | <u>\$ 14,812</u> | <u>\$ 12,852</u> | <u>\$ 12,584</u> | <u>\$ 12,361</u> | <u>\$ 10,913</u> |

**CITY OF HARKER HEIGHTS
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(amounts expressed in thousands)**

| | Fiscal Year | | | | | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-------------------|-------------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Net (Expense)/Revenue | | | | | | | | | | |
| Governmental Activities | \$ (18,826) | \$ (17,535) | \$ (17,841) | \$ (17,112) | \$ (16,463) | \$ (15,966) | \$ (15,841) | \$ (13,670) | \$ (11,663) | \$ (9,571) |
| Business-type Activities | 3,633 | 2,760 | 2,911 | 3,604 | 3,912 | 3,482 | 2,891 | 3,228 | 2,972 | 2,540 |
| Total Net Expense | <u>\$ (15,193)</u> | <u>\$ (14,775)</u> | <u>\$ (14,930)</u> | <u>\$ (13,508)</u> | <u>\$ (12,551)</u> | <u>\$ (12,484)</u> | <u>\$ (12,950)</u> | <u>\$ (10,442)</u> | <u>\$ (8,691)</u> | <u>\$ (7,031)</u> |
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| Governmental activities | | | | | | | | | | |
| Taxes | | | | | | | | | | |
| Property taxes | \$ 10,833 | \$ 10,419 | \$ 10,051 | \$ 9,189 | \$ 9,167 | \$ 8,965 | \$ 8,839 | \$ 8,344 | \$ 7,510 | \$ 6,436 |
| Sales taxes | 6,627 | 6,594 | 6,186 | 5,232 | 5,426 | 4,859 | 4,780 | 4,535 | 3,342 | 2,920 |
| Mixed drink taxes | 111 | 141 | 116 | 98 | 97 | 126 | 139 | 94 | 104 | 81 |
| Bingo taxes | 52 | 64 | 77 | 101 | 105 | 101 | 105 | 105 | 94 | 104 |
| Hotel/Motel taxes | 75 | 75 | 100 | 84 | 93 | 92 | 72 | 47 | 39 | 22 |
| Special assessments | | | | | | | | | | |
| Other taxes | | | | | | | | | | 1 |
| Franchise fees | 1,297 | 1,342 | 1,312 | 1,265 | 1,436 | 1,271 | 1,247 | 1,197 | 1,126 | 1,357 |
| Investment earnings | 115 | 48 | 132 | 40 | 64 | 48 | 205 | 498 | 993 | 1,091 |
| Gain on sale of capital assets | | | 12 | 9 | 9 | | | 4 | 10 | 98 |
| Transfers | 63 | 1,480 | 3,483 | 928 | (2,203) | 3,019 | 77 | 6,225 | (858) | 193 |
| Total Governmental Activities | <u>19,173</u> | <u>20,163</u> | <u>21,469</u> | <u>16,946</u> | <u>14,194</u> | <u>18,481</u> | <u>15,464</u> | <u>21,049</u> | <u>12,360</u> | <u>12,303</u> |
| Business-type activities | | | | | | | | | | |
| Franchise fees | 161 | 125 | 140 | 137 | 130 | 124 | 112 | 112 | 17 | |
| Investment earnings | 18 | 10 | 10 | 13 | 11 | 8 | 19 | 43 | 54 | 124 |
| Miscellaneous | | | | | | | | | | |
| Gain on sale of capital assets | | | | | | | 3 | | | 4 |
| Transfers | (63) | (1,480) | (3,483) | (928) | 2,203 | (3,019) | (77) | (6,225) | 858 | (193) |
| Total Business-type Activities | <u>116</u> | <u>(1,345)</u> | <u>(3,333)</u> | <u>(778)</u> | <u>2,344</u> | <u>(2,887)</u> | <u>57</u> | <u>(6,070)</u> | <u>929</u> | <u>(65)</u> |
| Total General Revenues and Other Changes in Net Position | <u>\$ 19,289</u> | <u>\$ 18,818</u> | <u>\$ 18,136</u> | <u>\$ 16,168</u> | <u>\$ 16,538</u> | <u>\$ 15,594</u> | <u>\$ 15,521</u> | <u>\$ 14,979</u> | <u>\$ 13,289</u> | <u>\$ 12,238</u> |
| Change in Net Position | | | | | | | | | | |
| Governmental Activities | \$ 347 | \$ 2,628 | \$ 3,628 | \$ (166) | \$ (2,269) | \$ 2,515 | \$ (377) | \$ 7,379 | \$ 697 | \$ 2,732 |
| Business-type Activities | 3,749 | 1,415 | (422) | 2,826 | 6,256 | 595 | 2,948 | (2,842) | 3,901 | 2,475 |
| Total Change in Net Position | <u>\$ 4,096</u> | <u>\$ 4,043</u> | <u>\$ 3,206</u> | <u>\$ 2,660</u> | <u>\$ 3,987</u> | <u>\$ 3,110</u> | <u>\$ 2,571</u> | <u>\$ 4,537</u> | <u>\$ 4,598</u> | <u>\$ 5,207</u> |

CITY OF HARKER HEIGHTS
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE¹
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

| Fiscal Year | Property Tax | Sales Tax | Franchise Tax | Bingo Tax | Alcoholic Beverage Tax | Hotel/Motel Tax | Other Tax | Total |
|--------------------|---------------------|------------------|----------------------|------------------|-------------------------------|------------------------|------------------|--------------|
| 2016 | 10,833 | 6,627 | 1,297 | 52 | 111 | 75 | | 18,995 |
| 2015 | 10,419 | 6,594 | 1,342 | 64 | 141 | 75 | | 18,635 |
| 2014 | 10,051 | 6,186 | 1,312 | 78 | 116 | 100 | | 17,843 |
| 2013 | 9,189 | 5,232 | 1,265 | 101 | 98 | 84 | | 15,969 |
| 2012 | 9,167 | 5,426 | 1,436 | 105 | 97 | 93 | | 16,324 |
| 2011 | 8,965 | 4,859 | 1,271 | 101 | 126 | 92 | | 15,414 |
| 2010 | 8,839 | 4,780 | 1,247 | 105 | 139 | 72 | | 15,182 |
| 2009 | 8,344 | 4,535 | 1,197 | 105 | 94 | 47 | | 14,322 |
| 2008 | 7,510 | 3,342 | 1,126 | 94 | 104 | 39 | | 12,215 |
| 2007 | 6,436 | 2,920 | 1,357 | 104 | 81 | 22 | 1 | 10,921 |

Source: Audited Financial Statements.

¹Includes general, debt services, capital projects, and hotel/motel funds.

**CITY OF HARKER HEIGHTS
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(amounts expressed in thousands)**

| | Fiscal Year | | | | | | | | | |
|------------------------------------|-----------------|------------------|------------------|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| General Fund | | | | | | | | | | |
| Reserved | | | | | | | \$ 36 | \$ 71 | \$ 30 | \$ 29 |
| Unreserved | | | | | | | 6,607 | 5,737 | 4,863 | 4,616 |
| Nonspendable | | | | | | | | | | |
| Restricted for: | | | | | | | | | | |
| Economic development | | | | | | 39 | | | | |
| Public safety | 3 | 3 | 1 | 1 | 3 | 3 | | | | |
| Debt service | | | | | | | | | | |
| Capital projects | | | | | | | | | | |
| Cemetery | 18 | 18 | 18 | 18 | | | | | | |
| Committed | | | | | | | | | | |
| Assigned to: | | | | | | | | | | |
| Culture and recreation | 243 | 220 | 179 | 146 | 91 | | | | | |
| Unassigned | 9,660 | 9,962 | 9,486 | 8,256 | 8,342 | 7,339 | | | | |
| Total general fund | <u>\$ 9,924</u> | <u>\$ 10,203</u> | <u>\$ 9,684</u> | <u>\$ 8,421</u> | <u>\$ 8,436</u> | <u>\$ 7,381</u> | <u>\$ 6,643</u> | <u>\$ 5,808</u> | <u>\$ 4,893</u> | <u>\$ 4,645</u> |
| All Other Governmental Funds | | | | | | | | | | |
| Reserved | | | | | | | \$ 11,568 | \$ 18,445 | \$ 12,637 | \$ 18,363 |
| Unreserved, reported in: | | | | | | | | | | |
| Special revenue funds | | | | | | | 169 | 214 | 211 | 183 |
| Capital projects funds | | | | | | | 2,327 | 2,241 | 878 | 2,039 |
| Debt service funds | | | | | | | | | | |
| Capital projects | | | | | | | | | | |
| Nonspendable | | | | | | | | | | |
| Restricted for: | | | | | | | | | | |
| Economic development | 85 | 106 | 189 | 206 | 222 | 233 | | | | |
| Public safety | 171 | 167 | 216 | 202 | 191 | 194 | | | | |
| Debt service | 55 | 108 | 106 | 61 | 48 | 106 | | | | |
| Capital projects | 1,496 | 8,321 | 11,470 | 4,433 | 8,291 | 15,611 | | | | |
| Committed | | | | | | | | | | |
| Assigned to: | | | | | | | | | | |
| Culture and recreation | | | | | | | | | | |
| Capital projects | 2,856 | 3,952 | | | | | | | | |
| Unassigned | | | 3,860 | 2,995 | 2,583 | 2,407 | | | | |
| Total all other governmental funds | <u>\$ 4,663</u> | <u>\$ 12,654</u> | <u>\$ 15,841</u> | <u>\$ 7,897</u> | <u>\$ 11,335</u> | <u>\$ 18,551</u> | <u>\$ 14,064</u> | <u>\$ 20,900</u> | <u>\$ 13,726</u> | <u>\$ 20,585</u> |

CITY OF HARKER HEIGHTS
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

| | Fiscal Year | | | | | | | | | |
|--|------------------|------------------|----------------|------------------|------------------|-----------------|-------------------|-----------------|-------------------|-----------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Revenues | | | | | | | | | | |
| Taxes | \$18,877 | \$18,555 | \$17,784 | \$16,019 | \$16,365 | \$ 15,464 | \$ 15,145 | \$ 14,344 | \$ 12,208 | \$ 10,920 |
| Licenses and permits | 320 | 330 | 591 | 286 | 204 | 191 | 207 | 181 | 329 | 280 |
| Fines | 822 | 1,145 | 1,541 | 1,405 | 1,472 | 1,399 | 1,408 | 1,415 | 1,313 | 1,247 |
| Charges for services | 857 | 795 | 787 | 797 | 721 | 708 | 748 | 645 | 669 | 609 |
| Intergovernmental | 447 | 932 | 198 | 443 | 432 | 397 | 317 | 131 | 324 | 55 |
| Investment earnings | 90 | 48 | 32 | 39 | 41 | 48 | 204 | 498 | 993 | 1,091 |
| Contributions and donations | 811 | 32 | 41 | 39 | 171 | 26 | 31 | 54 | 12 | 491 |
| Miscellaneous | 256 | 107 | 143 | 144 | 74 | 54 | 74 | 87 | 108 | 112 |
| Total revenues | 22,480 | 21,944 | 21,117 | 19,172 | 19,480 | 18,287 | 18,134 | 17,355 | 15,956 | 14,805 |
| Expenditures | | | | | | | | | | |
| General government | 3,669 | 4,102 | 2,734 | 3,072 | 2,659 | 3,023 | 2,750 | 2,213 | 1,889 | 1,735 |
| Public safety | 12,076 | 11,340 | 10,492 | 10,550 | 9,823 | 9,485 | 9,242 | 8,655 | 8,080 | 6,606 |
| Highways and streets | 1,541 | 1,288 | 1,321 | 1,302 | 1,558 | 1,172 | 1,130 | 1,104 | 1,058 | 933 |
| Culture and recreation | 2,922 | 2,837 | 2,726 | 2,727 | 2,541 | 2,348 | 2,166 | 1,974 | 1,569 | 1,846 |
| Economic development and assistance | 466 | 474 | 526 | 466 | 452 | 337 | 449 | 351 | 324 | 263 |
| Debt service | | | | | | | | | | |
| Principal | 1,893 | 1,550 | 1,677 | 1,509 | 1,409 | 1,122 | 1,127 | 777 | 632 | 425 |
| Interest | 1,010 | 1,059 | 1,077 | 1,053 | 1,169 | 1,153 | 1,125 | 1,104 | 929 | 898 |
| Tax collection fees | 29 | 28 | 28 | 28 | 27 | 22 | 21 | 16 | 15 | 15 |
| Bond issuance costs | 25 | 64 | 6 | 19 | 36 | 42 | | 44 | | |
| Capital outlay | 7,432 | 3,849 | 851 | 3,296 | 3,325 | 2,577 | 6,254 | 5,286 | 7,411 | 3,078 |
| Total expenditures | 31,063 | 26,591 | 21,438 | 24,022 | 22,999 | 21,281 | 24,264 | 21,524 | 21,907 | 15,799 |
| Excess of revenues over (under) expenditures | (8,583) | (4,647) | (321) | (4,850) | (3,519) | (2,994) | (6,130) | (4,169) | (5,951) | (994) |
| Other Financing Sources (Uses) | | | | | | | | | | |
| Issuance of refunding bonds | 1,985 | 6,569 | 6,046 | 455 | 3,200 | 5,000 | | 6,000 | | |
| Premium on refunding bonds | 164 | | | | | | | | | |
| Bond discount | | | | | | | | | | |
| Payment to refunded bond escrow agent | (2,106) | (6,551) | | (435) | (3,650) | | | | | |
| Capital leases | 208 | 478 | | 270 | | 199 | | 27 | 186 | 255 |
| Sale of capital assets proceeds | | | | | 10 | 1 | 52 | 6 | 11 | 107 |
| Transfers in | 3,600 | 4,150 | 7,278 | 3,436 | 3,034 | 5,925 | 2,400 | 11,071 | 2,750 | 3,650 |
| Transfers out | (3,537) | (2,670) | (3,795) | (2,508) | (5,237) | (2,906) | (2,323) | (4,846) | (3,608) | (3,470) |
| Total other financing sources (uses) | 314 | 1,976 | 9,529 | 1,218 | (2,643) | 8,219 | 129 | 12,258 | (661) | 542 |
| Net change in fund balances | (\$8,269) | (\$2,671) | \$9,208 | (\$3,632) | (\$6,162) | \$ 5,225 | \$ (6,001) | \$ 8,089 | \$ (6,612) | \$ (452) |
| Debt service as a percentage of noncapital expenditures | 13.42% | 12.10% | 13.69% | 13.00% | 13.51% | 12.57% | 12.95% | 12.13% | 11.35% | 11.30% |

**CITY OF HARKER HEIGHTS
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS**

| Fiscal Year | Real Property | Personal Property | Less: Exemptions¹ | Total Taxable Assessed Value | Taxable Assessed Value as a Percentage of Estimated Actual Value | Estimated Actual Taxable Value | Total Direct Rate |
|--------------------|----------------------|--------------------------|-------------------------------------|-------------------------------------|---|---------------------------------------|--------------------------|
| 2016 | 1,726,337,444 | 129,371,982 | 201,721,179 | 1,653,988,247 | 89.13% | 1,855,709,426 | 0.6770 |
| 2015 | 1,644,815,946 | 123,164,489 | 172,716,271 | 1,595,264,164 | 90.23% | 1,767,980,435 | 0.6770 |
| 2014 | 1,580,544,133 | 84,592,701 | 154,085,334 | 1,511,051,500 | 90.75% | 1,665,136,834 | 0.6770 |
| 2013 | 1,466,874,488 | 77,734,371 | 141,980,105 | 1,402,628,754 | 90.81% | 1,544,608,859 | 0.6770 |
| 2012 | 1,449,939,258 | 76,917,735 | 131,985,034 | 1,394,871,959 | 91.36% | 1,526,856,993 | 0.6770 |
| 2011 | 1,411,513,611 | 76,746,575 | 127,060,247 | 1,361,199,939 | 91.46% | 1,488,260,186 | 0.6770 |
| 2010 | 1,375,764,616 | 80,934,800 | 120,712,330 | 1,335,987,086 | 91.71% | 1,456,699,416 | 0.6770 |
| 2009 | 1,294,284,531 | 58,064,128 | 93,844,827 | 1,258,503,832 | 93.06% | 1,352,348,659 | 0.6796 |
| 2008 | 1,165,256,114 | 54,466,657 | 93,101,967 | 1,126,620,804 | 92.37% | 1,219,722,771 | 0.6796 |
| 2007 | 1,010,485,000 | 51,194,000 | 79,239,000 | 982,440,000 | 92.54% | 1,061,679,000 | 0.6796 |

Source: Bell County Appraisal District

NOTE: Tax rates are per \$100 of assessed values.

¹Amount includes productivity loss and the homestead cap as well as local and state exemptions.

**CITY OF HARKER HEIGHTS
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS**

| Fiscal Year | City of Harker Heights | | | Overlapping Rates | | | | | Total Direct and Overlapping |
|--------------------|-------------------------------|-----------------------------|--------------------------|--|------------------------------|--------------------|----------------------|------------------------|-------------------------------------|
| | Operating Millage | Debt Service Millage | Total Direct Rate | Killeen Independent School District | Central Texas College | Bell County | Road District | Clearwater UWCD | |
| 2016 | 0.51740 | 0.15960 | 0.67700 | 1.12800 | 0.13660 | 0.42120 | 0.02990 | 0.00395 | 2.39665 |
| 2015 | 0.51670 | 0.16030 | 0.67700 | 1.12800 | 0.13660 | 0.42120 | 0.02990 | 0.00400 | 2.39670 |
| 2014 | 0.51160 | 0.16540 | 0.67700 | 1.12800 | 0.13700 | 0.42120 | 0.02990 | 0.00400 | 2.39710 |
| 2013 | 0.49880 | 0.17820 | 0.67700 | 1.13100 | 0.14000 | 0.42120 | 0.02990 | 0.00400 | 2.40310 |
| 2012 | 0.50240 | 0.17460 | 0.67700 | 1.14119 | 0.14090 | 0.40960 | 0.02990 | 0.00400 | 2.40259 |
| 2011 | 0.53110 | 0.14590 | 0.67700 | 1.14119 | 0.14090 | 0.38200 | 0.02990 | 0.00400 | 2.37499 |
| 2010 | 0.53430 | 0.14270 | 0.67700 | 1.14119 | 0.14090 | 0.37590 | 0.02950 | 0.00400 | 2.36849 |
| 2009 | 0.55680 | 0.12280 | 0.67960 | 1.14119 | 0.14100 | 0.37790 | 0.02950 | 0.00400 | 2.37319 |
| 2008 | 0.56750 | 0.11210 | 0.67960 | 1.14119 | 0.14200 | 0.37950 | 0.02950 | 0.00400 | 2.37579 |
| 2007 | 0.55130 | 0.12830 | 0.67960 | 1.44890 | 0.14200 | 0.38150 | 0.02950 | 0.00400 | 2.68550 |

Source: Bell County Appraisal District

Note: Property tax rates per \$100 of assessed value.

**CITY OF HARKER HEIGHTS
PRINCIPAL TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
(amounts expressed in thousands)**

| Taxpayer | 2016 | | | 2007 | | |
|-------------------------------------|-------------------------------|-------------|---|-------------------------------|-------------|---|
| | Assessed Valuation | Rank | Percentage of Total Assessed Valuation | Assessed Valuation | Rank | Percentage of Total Assessed Valuation |
| HH/Killeen Health System LLC | \$ 50,128 | 1 | 3.03% | | | |
| Cole MT Harker Heights TX LLC | 32,789 | 2 | 1.98% | | | |
| HH/Killeen Health System LLC | 28,000 | 3 | 1.69% | | | |
| Wal-Mart Real Estate Business Trust | 17,496 | 4 | 1.06% | 16,819 | 1 | 1.71% |
| Oncor Electric Delivery Co LLC | 11,970 | 5 | 0.72% | | | |
| Sam's East Inc | 9,979 | 6 | 0.60% | | | |
| HH/Killeen Health System LLC | 9,094 | 7 | 0.55% | | | |
| HEB Grocery Company LP | 6,345 | 8 | 0.38% | | | |
| Target Corporation | 5,858 | 9 | 0.35% | | | |
| Sam's Real Estate Business Trust | 5,836 | 10 | 0.35% | | | |
| TXU Electric Delivery Company | | | | 9,488 | 2 | 0.97% |
| Onmi Lion's Run LP | | | | 4,332 | 3 | 0.44% |
| Will Properties, Inc. | | | | 3,639 | 4 | 0.37% |
| Lookout Ridge, LLC. | | | | 3,436 | 5 | 0.35% |
| Boose Properties, LTD. | | | | 3,165 | 6 | 0.32% |
| Butt, H. E. Grocery Co. | | | | 3,115 | 7 | 0.32% |
| Butt, H. E. Grocery Co. | | | | 3,054 | 8 | 0.31% |
| House, Charles Etal | | | | 3,017 | 9 | 0.31% |
| TWE Advance/Newhouse Waco | | | | 2,672 | 10 | 0.27% |
| | \$ 177,495 | | 10.71% | \$ 52,737 | | 5.37% |

Source: Bell County Appraisal District

**CITY OF HARKER HEIGHTS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(amounts expressed in thousands)**

| Fiscal Year | Total Tax Levy | Collected within the Fiscal Year of the Levy | | | Total Collections to Date | | | Outstanding Delinquent Taxes | Ratio of Outstanding Delinquent Taxes to Total Tax Levy |
|--------------------|-----------------------|---|---------------------------|---------------------|----------------------------------|---------------------------|-----------------------------------|-------------------------------------|--|
| | | Amount Collected | Percentage of Levy | Less Refunds | Amount Disbursed | Percentage of Levy | Delinquent Taxes Collected | | |
| 2016 | 11,198 | 10,957 | 97.85% | 87 | 10,870 | 97.07% | 111 | 227 | 2.03% |
| 2015 | 10,800 | 10,589 | 98.05% | 76 | 10,513 | 97.34% | 95 | 222 | 2.06% |
| 2014 | 10,230 | 10,286 | 100.55% | 112 | 10,174 | 99.45% | 161 | 213 | 2.08% |
| 2013 | 9,496 | 9,327 | 98.22% | 98 | 9,229 | 97.19% | 114 | 257 | 2.71% |
| 2012 | 9,443 | 9,265 | 98.12% | 59 | 9,206 | 97.49% | 121 | 242 | 2.56% |
| 2011 | 9,215 | 9,057 | 98.29% | 41 | 9,016 | 97.84% | 143 | 252 | 2.73% |
| 2010 | 9,045 | 8,863 | 97.99% | 62 | 8,801 | 97.30% | 139 | 261 | 2.89% |
| 2009 | 8,553 | 8,375 | 97.92% | 23 | 8,352 | 97.65% | 109 | 257 | 3.00% |
| 2008 | 7,657 | 7,468 | 97.53% | n/a | 7,468 | 97.53% | 90 | 221 | 2.89% |
| 2007 | 6,565 | 6,367 | 96.98% | n/a | 6,367 | 96.98% | 85 | 218 | 3.32% |

Source: Bell County Appraisal District

NOTE: Fiscal Years 2007 to 2008 total collections already have the refund amount deducted.

CITY OF HARKER HEIGHTS
OWN SOURCE REVENUES¹, SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
LAST TEN FISCAL YEARS
(amounts expressed in thousands except rates and meters)

| Fiscal Year | Water & Sewer | | | Drainage | | | Number of Water Meters | Special Assessments ⁶ | |
|-------------|------------------|-------------------------|-------------------------|------------------|-------------------------------|------------------------------|------------------------|----------------------------------|-----------|
| | Program Revenues | Water Rate ² | Sewer Rate ³ | Program Revenues | Residential Rate ⁴ | Commercial Rate ⁵ | | Billings | Collected |
| 2016 | 9,353 | 10.28 / 3.20 | 18.53 / 3.10 | 797 | 6.00 | 7.20 / 14.40 | 10,638 | 30 | 18 |
| 2015 | 8,776 | 9.98 / 3.11 | 17.99 / 3.01 | 772 | 6.00 | 7.20 / 14.40 | 10,384 | 25 | 16 |
| 2014 | 8,588 | 9.98 / 3.11 | 17.99 / 3.01 | 775 | 6.00 | 7.20 / 14.40 | 10,006 | 36 | 5 |
| 2013 | 8,990 | 9.98 / 3.11 | 17.99 / 3.01 | 738 | 6.00 | 7.20 / 14.40 | 9,666 | 37 | 5 |
| 2012 | 9,099 | 9.98 / 3.11 | 17.99 / 3.01 | 729 | 6.00 | 7.20 / 14.40 | 9,740 | 49 | 5 |
| 2011 | 9,381 | 9.98 / 3.11 | 17.99 / 3.01 | 716 | 6.00 | 7.20 / 14.40 | 9,533 | 46 | 6 |
| 2010 | 7,635 | 9.50 / 2.96 | 17.13 / 2.87 | 706 | 6.00 | 7.20 / 14.40 | 9,474 | 46 | 1 |
| 2009 | 7,622 | 9.05 / 2.82 | 16.31 / 2.73 | 684 | 6.00 | 7.20 / 14.40 | 9,415 | 42 | 18 |
| 2008 | 7,072 | 8.62 / 2.69 | 15.53 / 2.60 | 557 | 5.00 | 6.00 / 12.00 | 9,043 | 61 | 2 |
| 2007 | 5,852 | 8.21 / 2.56 | 14.79 / 2.48 | 295 | 2.50 | 6.00 / 12.00 | 8,825 | 57 | 9 |

Source: Audited Financial Statements, Annual Fee Schedules, and Utility Reports.

¹The Sanitation Fund is not included because, although funds are received for this service, garbage collection is outsourced.

²Rates are for within City limits (base rate/per 1,000 gallon rate).

³Residential customers are capped at 10,000 gallons for sewer charges (First 3,000 gallons rate/3-10,000 gallons per gallon rate).

⁴Rate shown is for single family homes, fee is paid per billing cycle.

⁵Rates shown is for commercial buildings up to 2,500 square feet/2,501 to 10,000 square feet, our two largest categories. Fee is paid per billing cycle.

⁶The special assessment billings and collection amounts include the general and proprietary funds.

**CITY OF HARKER HEIGHTS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(amount expressed in thousands)**

| <u>Fiscal Year</u> | <u>Bonded Debt</u> | <u>Notes Payable</u> | <u>Capital Leases</u> | <u>Bonded Debt</u> | <u>Capital Leases</u> | <u>Total Outstanding Debt</u> | <u>Percentage of Personal Income¹</u> | <u>Per Capita¹</u> |
|--------------------|--------------------------------|----------------------|-----------------------|---------------------------------|-----------------------|-------------------------------|--|-------------------------------|
| | <u>Governmental Activities</u> | | | <u>Business-type Activities</u> | | | | |
| 2016 | 26,972 | | 552 | 20,426 | | 47,950 | n/a | 1,546.77 |
| 2015 | 28,586 | 69 | 571 | 21,513 | | 50,739 | 0.29% | 1,691.30 |
| 2014 | 29,512 | 138 | 185 | 22,413 | | 52,248 | 0.32% | 1,801.66 |
| 2013 | 25,054 | 205 | 322 | 20,397 | 54 | 46,032 | 0.29% | 1,644.00 |
| 2012 | 26,485 | | 107 | 21,552 | 106 | 48,250 | 0.30% | 1,723.21 |
| 2011 | 28,220 | | 243 | 22,246 | 156 | 50,865 | 0.32% | 1,883.89 |
| 2010 | 24,127 | | 241 | 20,316 | 204 | 44,888 | 0.30% | 1,662.52 |
| 2009 | 24,934 | 81 | 462 | 21,322 | 251 | 47,050 | 0.32% | 1,809.62 |
| 2008 | 19,428 | 131 | 647 | 13,731 | 5 | 33,942 | 0.23% | 1,305.46 |
| 2007 | 19,783 | 173 | 675 | 14,443 | 6 | 35,080 | 0.27% | 1,403.20 |

Source: Audited Financial Statements

¹See the Schedule of Demographic and Economic Statistics (page 130) for population and personal income data.

CITY OF HARKER HEIGHTS
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(amount expressed in thousands)

| Fiscal Year | Bonded Debt¹ | Less: Amounts Available in Debt Service Fund² | Total | Percentage of Estimated Actual Taxable Value of Property³ | Per Capita⁴ |
|------------------------|--------------------------------|---|--------------|---|-------------------------------|
| 2016 | 47,399 | 95 | 47,304 | 2.55% | 1,525.94 |
| 2015 | 50,099 | 165 | 49,934 | 2.82% | 1,664.47 |
| 2014 | 51,925 | 161 | 51,764 | 3.11% | 1,784.97 |
| 2013 | 45,451 | 94 | 45,357 | 2.94% | 1,619.89 |
| 2012 | 48,037 | 81 | 47,956 | 3.14% | 1,712.71 |
| 2011 | 50,466 | 107 | 50,359 | 3.38% | 1,865.15 |
| 2010 | 44,443 | 14 | 44,429 | 3.05% | 1,645.52 |
| 2009 | 46,256 | 142 | 46,114 | 3.41% | 1,773.62 |
| 2008 | 33,160 | 192 | 32,968 | 2.70% | 1,268.00 |
| 2007 | 34,226 | 275 | 33,951 | 3.20% | 1,358.04 |

Source: Audited Financial Statements.

¹This is the general bonded debt of both governmental and business-type activities.

²This is the amount restricted for debt service.

³See Schedule of Assessed and Estimated Value of Property (page 120) for property data

⁴See Schedule of Demographic and Economic Statistics (page 130) for population data

**CITY OF HARKER HEIGHTS
COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
AS OF SEPTEMBER 30, 2016**

| Government Subdivisions | Debt Amount¹ | Estimated Percentage Applicable | City's Overlapping Debt |
|--|--------------------------------|--|--|
| Bell County | \$ 127,275,000 | 10.28% | \$ 13,083,870 |
| Killeen Independent School District | 60,295,000 | 23.15% | 13,958,293 |
| Subtotal, overlapping debt | | | 27,042,163 |
| City of Harker Heights Direct Debt | | | 47,950,758 |
| Total direct and overlapping net funded debt | | | <u>\$ 74,992,921</u> |

Source: Municipal Advisory Council of Texas and Audited Financial Statements

¹Gross Debt. Some debt may be supported by other revenues and thus be considered self-supporting debt. Using gross debt may overstate the actual amount of debt supported by ad valorem taxes.

Methodology for Deriving Overlapping Percentages:

- (1) Determine the estimated shared assessed valuation of taxable property within both the overlapping taxing body(s) and the municipality.
- (2) Divide that shared value by the total assessed value of taxable property within the overlapping taxing body.

**CITY OF HARKER HEIGHTS
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS**

| <u>Fiscal Year</u> | <u>Total Taxable Assessed Value</u> | <u>Taxable Assessed Value as a Percentage of Estimated Actual Value</u> | <u>Estimated Actual Taxable Value</u> |
|--|-------------------------------------|---|---------------------------------------|
| 2016 | 1,653,988,247 | 89.13% | 1,855,709,426 |
| 2015 | 1,595,264,164 | 90.23% | 1,767,980,435 |
| 2014 | 1,511,051,500 | 90.75% | 1,665,136,834 |
| 2013 | 1,402,628,754 | 90.81% | 1,544,608,859 |
| 2012 | 1,394,871,959 | 91.36% | 1,526,856,993 |
| Total Five Year Valuation | | | <u>8,360,292,547</u> |
| Five Year Average Full Valuation of Taxable Real Property | | | <u>1,672,058,509</u> |
| Constitutional Debt Limit (7% of Average Full Valuation) | | | <u>117,044,096</u> |
| Outstanding Indebtness as of September 30, 2016 | | | |
| Total Bonded Debt | | | 45,815,001 |
| Less: Revenue bonds | | | 19,685,456 |
| Less: Amount available for repayment of general obligation bonds | | | 55,468 |
| Net indebtness subject to debt limit | | | <u>26,074,077</u> |
| Net debt contracting margin | | | 90,970,019 |
| Percentage of net debt contracting margin available | | | 77.72% |
| Percentage of net debt contracting power exhausted | | | 22.28% |

Last Ten Fiscal Years

| <u>Year</u> | <u>Constitutional Debt Limit</u> | <u>Outstanding Indebtness September 30</u> | <u>Percentage of Net Debt Contracting Margin Available</u> |
|-------------|----------------------------------|--|--|
| 2016 | 117,044,096 | 26,074,077 | 77.72% |
| 2015 | 111,899,806 | 27,697,306 | 75.25% |
| 2014 | 107,541,872 | 29,487,215 | 72.58% |
| 2013 | 103,162,838 | 25,072,017 | 75.70% |
| 2012 | 98,614,432 | 26,524,950 | 73.10% |
| 2011 | 92,101,940 | 28,209,000 | 69.37% |
| 2010 | 83,145,606 | 24,227,000 | 70.86% |
| 2009 | 72,864,154 | 24,958,000 | 65.75% |
| 2008 | 63,171,483 | 19,406,000 | 69.28% |
| 2007 | 54,210,926 | 19,753,000 | 63.56% |

**CITY OF HARKER HEIGHTS
 PLEDGED-REVENUE COVERAGE
 LAST TEN FISCAL YEARS
 (amounts expressed in thousands)**

| Fiscal Year | Water and Sewer Fund | | | Drainage Fund | | | Debt Service Requirements | | | |
|-------------|----------------------|---------------------------------|--|----------------|---------------------------------|--|---------------------------|----------|-------|----------|
| | Gross Revenues | Operating Expenses ¹ | Net Revenue Available for Debt Service | Gross Revenues | Operating Expenses ¹ | Net Revenue Available for Debt Service | Principal | Interest | Total | Coverage |
| 2016 | 9,353 | 4,996 | 4,357 | 797 | 188 | 609 | 5,884 | 707 | 6,591 | 0.75 |
| 2015 | 8,776 | 5,201 | 3,575 | 772 | 180 | 592 | 1,216 | 791 | 2,007 | 2.08 |
| 2014 | 8,588 | 4,911 | 3,677 | 775 | 183 | 592 | 1,019 | 800 | 1,819 | 2.35 |
| 2013 | 8,988 | 4,925 | 4,063 | 738 | 204 | 534 | 1,171 | 814 | 1,985 | 2.32 |
| 2012 | 9,098 | 4,719 | 4,379 | 729 | 165 | 564 | 4,101 | 912 | 5,013 | 0.99 |
| 2011 | 9,381 | 4,875 | 4,506 | 716 | 189 | 527 | 1,133 | 405 | 1,538 | 3.27 |
| 2010 | 7,635 | 4,497 | 3,138 | 706 | 192 | 514 | 1,073 | 934 | 2,007 | 1.82 |
| 2009 | 7,622 | 4,415 | 3,207 | 684 | 181 | 503 | 932 | 718 | 1,650 | 2.25 |
| 2008 | 7,072 | 4,240 | 2,832 | 557 | 155 | 402 | 737 | 630 | 1,367 | 2.37 |
| 2007 | 5,852 | 3,418 | 2,434 | 295 | 98 | 197 | 652 | 655 | 1,307 | 2.01 |

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Source: Audited Financial Statements.

¹Total operating expenses, exclusive of depreciation.

**CITY OF HARKER HEIGHTS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**

| Fiscal Year | Population ¹ | Median Age ² | Per Capita Income ³ | Personal Income ³ | Education Attainment, 25 Years and Over ² | | Peak School Enrollment ⁴ | Unemployment Rate ⁵ |
|-------------|-------------------------|-------------------------|--------------------------------|------------------------------|--|-------------------------------|-------------------------------------|--------------------------------|
| | | | | | High School Graduate or Higher | Four or More Years of College | | |
| 2016 | 31,027 | | n/a | n/a | | | 43,428 | 4.3% |
| 2015 | 29,545 | | 40,237 | 17,343,480 | | | 42,929 | 4.7% |
| 2014 | 28,950 | | 38,786 | 16,489,760 | | | 41,414 | 5.6% |
| 2013 | 28,154 | | 37,862 | 16,016,380 | | | 41,969 | 6.9% |
| 2012 | 27,654 | | 38,556 | 16,196,150 | | | 41,172 | 7.2% |
| 2011 | 27,312 | | 38,699 | 15,970,160 | | | 40,609 | 7.6% |
| 2010 | 26,700 | 31.6 | 37,048 | 15,128,210 | 90.70% | 27.50% | 40,463 | 7.2% |
| 2009 | 26,232 | | 37,536 | 14,840,670 | | | 39,964 | 5.5% |
| 2008 | 25,581 | | 36,835 | 14,447,870 | | | 38,761 | 4.3% |
| 2007 | 25,005 | | 34,431 | 13,111,560 | | | 36,895 | 3.9% |

Sources: ¹ Population is estimated by the City of Harker Heights Planning Department with the exception of the 2010 data which is from Census 2010.
² Census 2010.
³ Texas Workforce Commission information for Killeen-Temple Metropolitan Statistical Area. Personal income is shown in thousands.
⁴ Killeen Independent School District.
⁵ Texas Workforce Commission information for Harker Heights.

**CITY OF HARKER HEIGHTS
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO**

| Employer | 2016 | | | 2007 | | |
|--|------------------------|------|---|------------------------|------|---|
| | Number of Employees | Rank | Percentage of Total City Employment | Number of Employees | Rank | Percentage of Total City Employment |
| Killeen Independent School District ¹ | 722.0 | 1 | 6.27% | 644.0 | 1 | 6.13% |
| Wal-Mart Supercenter | 537.0 | 2 | 4.67% | 420.0 | 2 | 3.99% |
| City of Harker Heights | 247.0 | 3 | 2.15% | 236.0 | 3 | 2.24% |
| HEB Store | 243.0 | 4 | 2.11% | 184.5 | 4 | 1.75% |
| Indian Oaks | 186.0 | 5 | 1.62% | 137.0 | 5 | 1.30% |
| Target | 155.0 | 6 | 1.35% | | | |
| Cheddar's Restaurant | 140.0 | 7 | 1.22% | | | |
| Cracker Barrel | 101.0 | 8 | 0.88% | | | |
| Razzoo's Cajun Café | 76.0 | 9 | 0.66% | | | |
| McDonald's Restaurant | 58.0 | 10 | 0.50% | 62.0 | 6 | 0.59% |
| Pizza Hut | | | | 50.0 | 7 | 0.48% |
| Cooper & Bright Plumbing | | | | 48.0 | 8 | 0.46% |
| Furniture Row | | | | 44.0 | 9 | 0.42% |
| The Learning Zone | | | | 30.0 | 10 | 0.29% |
| | <u>2,465.0</u> | | <u>21.43%</u> | <u>1,855.5</u> | | <u>17.65%</u> |

Source: Human Resource Department (or person) of each business.

¹Killeen Independent School District numbers only include campuses in Harker Heights.

**CITY OF HARKER HEIGHTS
PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS
(amounts expressed in thousands)**

| Fiscal Year | Property Value ¹ | | | | Commercial Construction ² | | Residential Construction ² | | Bank Deposits ⁴ |
|-------------|-----------------------------|-------------|------------|-----------|--------------------------------------|---------|---------------------------------------|--------|------------------------------|
| | Commercial | Residential | Exemptions | Total | Number of Units ³ | Value | Number of Units ³ | Value | |
| 2016 | 360,466 | 1,432,212 | 197,181 | 1,595,497 | 6 | 2,688 | 201 | 48,340 | 1,258,120,955 ^(d) |
| 2015 | 338,112 | 1,367,445 | 169,171 | 1,536,386 | 8 | 20,715 | 209 | 45,616 | 1,251,135,124 ^(d) |
| 2014 | 288,694 | 1,313,510 | 149,488 | 1,452,716 | 10 | 15,887 | 221 | 46,070 | 1,190,961,291 ^(d) |
| 2013 | 223,105 | 1,257,787 | 137,688 | 1,343,204 | 9 | 21,801 | 219 | 45,655 | 1,081,249,810 ^(d) |
| 2012 | 213,902 | 1,250,016 | 127,787 | 1,336,131 | 41 | 12,329 | 184 | 41,389 | 1,045,296,830 ^(c) |
| 2011 | 212,744 | 1,212,457 | 122,373 | 1,302,828 | 34 | 112,383 | 113 | 24,058 | 999,452,924 ^(c) |
| 2010 | 209,511 | 1,181,173 | 116,507 | 1,274,177 | 27 | 8,638 | 188 | 35,936 | 842,872,885 ^(c) |
| 2009 | 151,564 | 1,135,363 | 86,790 | 1,200,137 | 31 | 8,665 | 156 | 30,024 | 1,840,455 ^(b) |
| 2008 | 135,163 | 1,021,406 | 83,360 | 1,073,209 | 62 | 29,854 | 270 | 52,979 | 1,686,403 ^(b) |
| 2007 | 124,702 | 875,667 | 79,397 | 920,972 | 28 | 13,995 | 349 | 66,425 | 817,687 ^(a) |

Sources: ¹Bell County Appraisal District

²Harker Heights Planning and Development Department

³Amounts are as shown

⁴FDIC Call Report for (a) Extraco Bank, (b) add Union State Bank and First National Bank Texas, (c) add Chase Bank and Bank of America, and (d) add First State Bank Central Texas

**CITY OF HARKER HEIGHTS
FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

| Function/Program | As of September 30, | | | | | | | | | |
|--------------------------------|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| General Government: | | | | | | | | | | |
| Mayor and Council | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 |
| Municipal Services | 33.5 | 31.5 | 26.5 | 26.5 | 26.5 | 26.0 | 26.0 | 25.0 | 24.5 | 21.5 |
| Planning and Building | 9.0 | 9.0 | 9.0 | 9.0 | 8.0 | 8.0 | 8.0 | 8.0 | 7.0 | 7.0 |
| Public Safety: | | | | | | | | | | |
| Police | 61.0 | 60.0 | 62.0 | 62.0 | 62.0 | 61.0 | 61.0 | 59.0 | 56.0 | 52.0 |
| Fire | 44.5 | 44.5 | 43.5 | 43.5 | 43.5 | 43.5 | 43.5 | 38.5 | 36.5 | 33.5 |
| Streets | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 |
| Culture and Recreation: | | | | | | | | | | |
| Parks and Recreation | 47.5 | 47.5 | 47.5 | 46.0 | 45.0 | 45.0 | 43.0 | 43.0 | 35.0 | 34.0 |
| Library | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 6.5 | 6.5 |
| Public Works | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 |
| Water and Sewer | 18.0 | 18.0 | 17.0 | 17.0 | 16.0 | 16.0 | 16.0 | 16.0 | 15.0 | 14.0 |
| Drainage | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Sanitation | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 0.0 | 0.0 |
| Total | 248.0 | 245.0 | 240.0 | 238.5 | 235.5 | 234.0 | 232.0 | 224.0 | 203.5 | 191.5 |

Source: City of Harker Heights Finance Department

**CITY OF HARKER HEIGHTS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

| Function/Program | Fiscal Year | | | | | | | | | |
|---|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Planning and Building | | | | | | | | | | |
| Building Permits Issued | 2,109 | 2,386 | 4,665 | 1,763 | 1,502 | 1,479 | 1,796 | 1,811 | 2,091 | 2,320 |
| Value of Building Permits ¹ | 75,212 | 79,598 | 96,333 | 75,077 | 59,115 | 144,518 | 50,070 | 44,377 | 92,218 | 102,179 |
| Police | | | | | | | | | | |
| Physical Arrest | 2,386 | 1,173 | 1,496 | 1,320 | 1,593 | 1,528 | 1,493 | 1,552 | 1,969 | 1,842 |
| Parking Violations | 27 | 42 | 27 | 58 | 139 | 30 | 0 | 3 | 19 | 23 |
| Traffic Violations | 2,979 | 3,916 | 8,800 | 8,800 | 8,776 | 7,989 | 7,282 | 7,626 | 8,727 | 8,530 |
| Fire | | | | | | | | | | |
| Calls Answered | 3,930 | 4,049 | 3,547 | 3,627 | 3,643 | 3,405 | 3,137 | 2,818 | 2,763 | 2,409 |
| Fire and Emergency Responses | 3,823 | 3,931 | 3,469 | 3,558 | 3,582 | 3,300 | 3,042 | 2,964 | 2,715 | 3,571 |
| Fires Extinguished | 82 | 103 | 133 | 91 | 111 | 193 | 116 | 134 | 197 | 101 |
| Inspections | 444 | 600 | 800 | 933 | 540 | 561 | 514 | 552 | 678 | 216 |
| Parks and Recreation | | | | | | | | | | |
| Aquatic Center Usage | 14,469 | 20,443 | 12,470 | 12,773 | 13,069 | 15,498 | 12,420 | 15,086 | 16,458 | 17,743 |
| Program Participants | 8,058 | 8,118 | 7,933 | 9,948 | 9,497 | 8,780 | 7,157 | 5,994 | 5,418 | 6,500 |
| Library | | | | | | | | | | |
| Annual Circulation | 176,788 | 199,529 | 166,256 | 165,405 | 152,117 | 146,130 | 131,477 | 101,194 | 76,002 | 68,726 |
| Water and Sewer | | | | | | | | | | |
| Average daily water consumption in gallons ¹ | 4,163 | 4,000 | 3,954 | 4,325 | 4,534 | 4,940 | 3,770 | 4,390 | 4,093 | 3,309 |
| Residential water rate | | | | | | | | | | |
| Base | \$10.28 | \$9.98 | \$9.98 | \$9.98 | \$9.98 | \$9.98 | \$9.98 | \$9.05 | \$8.62 | \$8.21 |
| Per 1,000 gallons | \$3.20 | \$3.11 | \$3.11 | \$3.11 | \$3.11 | \$3.11 | \$3.11 | \$2.82 | \$2.69 | \$2.56 |
| Average daily sewage treatment in gallons ¹ | 2,780 | 1,940 | 1,790 | 1,880 | 1,760 | 1,900 | 1,800 | 1,700 | 1,700 | 1,700 |
| Residential sewer rates | | | | | | | | | | |
| 1,000 - 3,000 gallons | \$18.53 | \$17.99 | \$17.99 | \$17.99 | \$17.99 | \$17.99 | \$17.99 | \$16.31 | \$15.53 | \$14.79 |
| Per 1,000 gallons (3,000 - 10,000 gallons) | \$3.10 | \$3.01 | \$3.01 | \$3.01 | \$3.01 | \$3.01 | \$3.01 | \$2.73 | \$2.60 | \$2.48 |

NOTE: The City of Harker Heights was incorporated in 1961 as a Home Rule form of government

Source: Various City of Harker Heights departments.

¹amounts expressed in thousands

**CITY OF HARKER HEIGHTS
CAPITAL ASSETS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

| Function/Program | Fiscal Year | | | | | | | | | |
|-------------------------------------|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Area (square miles) | 15.65 | 15.4 | 15.4 | 15.4 | 15.4 | 15.4 | 15.24 | 15.23 | 14.2 | 14.2 |
| Police | | | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Cars | 20 | 20 | 20 | 17 | 17 | 33 | 38 | 38 | 38 | 36 |
| Fire | | | | | | | | | | |
| Stations | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Fire Trucks | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 3 | 3 |
| Ambulances | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Command Van | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Street (miles) | 145.4 | 145.64 | 140 | 140 | 166.49 | 164.65 | 175 | 170.26 | 132 | 130 |
| Street lights | 1,470 | 1,445 | 1,438 | 1,379 | 1,262 | 1,275 | 1,250 | 1,211 | 1,154 | 1,100 |
| Parks and Recreation | | | | | | | | | | |
| Recreation/community center | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Parks | 8 | 8 | 8 | 7 | 6 | 8 | 7 | 10 | 8 | 9 |
| Acreage | 194 | 194 | 194 | 194 | 177 | 194 | 230 | 230 | 230 | 227 |
| Baseball/softball diamonds | 9 | 9 | 9 | 9 | 8 | 9 | 8 | 6 | 3 | 3 |
| Soccer/football fields ¹ | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 3 | 11 |
| Swimming pools | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Library/Activity Center | | | | | | | | | | |
| Building | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Water | | | | | | | | | | |
| Water mains (miles) | 187.1 | 179.13 | 177.55 | 172.66 | 171.13 | 168.06 | 171.48 | 171.48 | 153 | 148 |
| Service connections | 10,638 | 10,384 | 10,006 | 9,666 | 9,740 | 9,533 | 9,445 | 9,415 | 9,043 | 8,825 |
| Fire hydrants | 1,102 | 1,102 | 1,101 | 1,090 | 1,080 | 1,060 | 1,050 | 980 | 885 | 881 |
| Maximum daily capacity | 13,500,000 | 13,500,000 | 13,500,000 | 13,500,000 | 13,500,000 | 10,000,000 | 13,500,000 | 13,500,000 | 13,500,000 | 13,500,000 |
| Sewer | | | | | | | | | | |
| Sanitary sewer (miles) | 131.33 | 130.36 | 125.92 | 121.43 | 120.62 | 116.97 | 116.84 | 117.64 | 117 | 116 |
| Service connections | 9,228 | 8,959 | 8,842 | 8,586 | 8,580 | 8,314 | 8,286 | 8,257 | 8,199 | 7,570 |
| Storm sewer (miles) | 9.5 | 9.5 | 9.5 | 9.0 | 9.0 | 8.5 | 8.0 | 8.0 | 7.0 | 7.0 |
| Treatment capacity (gallons) | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 |

Source: Various City of Harker Heights departments.

¹2007 numbers reflect small sized fields used; 2008-2009 reflect full size fields



**YELLOW BOOK
AUDIT**



LOTT, VERNON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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POST OFFICE BOX 160 800/460/4783
TEMPLE, TEXAS 76503 FAX 254/778/4792

KILLEEN • COPPERAS COVE • TEMPLE

Member of
American Institute & Texas Society of
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and
Members of the City Council
City of Harker Heights, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Harker Heights (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated January 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Jett, Vernon & Co., P.C." The signature is written in a cursive, flowing style.

Killeen, Texas

January 31, 2017